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# THE SAFETY OF THE NATION



# THE SAFETY OF THE NATION

SHOWING HOW OUR SECURITY  
RESTS UPON OUR INDUSTRIES

152841

BY

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"THE GERMANS IN ENGLAND," "THE UNSEEN HAND IN ENGLISH  
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# THE SAFETY OF THE NATION

## CHAPTER I

### THE POLE STAR OF POLICY

*The Object of a National Policy.*—If we are to conduct wisely our national affairs, it is clear that we must have some guiding principle. As the needle of the mariners' compass is governed by the Pole, to which it always returns, however it may be shaken, so we must have our Pole Star to fix our course in this our little voyage of inquiry. What, then, is the object of a national policy ?

Various inquirers give various answers. Some say happiness, some riches, others liberty, still others an equal division of the national wealth. " The greatest happiness of the greatest number " is probably the favourite guiding principle of our modern statesmen.

Yet if we fairly consider the matter, happiness is no Pole Star but a will-o'-the-wisp.



For a nation may be happy upon the edge of danger. It may be happy without considering its safety. It may be happy without any guarantee of continuance. Let us suppose a nation of which every man and woman had their fill of liberty, of happiness, and of content. Such a nation would be the ideal of our utilitarian philosophers. Yet it might be robbed and enslaved or utterly destroyed at a stroke by some poor and savage race well disciplined in arms and skilfully led to war.

*The Struggle for Existence.*—Life is a struggle for existence. This is a law in nature which civilisation does not altogether conceal. And nations are not exempt from this law. A nation is a species of man, as man is a species of animal. The history of the species is one long struggle for survival. This inspires its actions: this shapes its upward course. It is with nations as with the rest of nature, the fit rise and increase, the unfit dwindle and disappear, or remain only as hewers of wood and drawers of water. The history of nations is the story of their struggle for existence. It has not yet been discovered by the slavish followers of our classical school of economy that Darwin has undermined their foundations and brought down their whole system.

The survival of the nation, then, must be the foundation of our policy. Some of us have a clear faith in a life eternal : to others the grave is the gate of the unknown. But there is at least this species of eternity in which all live and hope—the past, the present, and the future of their race and nation. Our fathers continue to live in us . we continue to live in our children. We desire to hand on the torch of life as we received it. Over and over again in British history the British people have been willing to sacrifice the happiness and riches and, indeed, the very life of a whole generation, that the nation might survive.

Our soldiers and sailors who fought in the narrow seas and the battlefields of Flanders sank down upon the graves of uncounted generations of Britons who had fought and died before them in the same cause—the survival and security of the nation. In peace this struggle is carried on by the operations of industry, of commerce, of diplomacy. War is an intensification of peace.

Security of survival is the foundation of our national policy. To be happy without being secure is folly ; to be rich without being secure is danger. Those who offer people happiness, or liberty, or cheapness, or an

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equal division of riches, without offering them security, offer them the means of destruction.

The security of the nation, then, is our guiding principle. By that principle we are to steer our course and to that test we are to apply the policy and the proposals of our statesmen. It is to precede and govern in our mind all ideas of the pursuit of wealth or happiness or even liberty. It is to be the touch-stone of all measures for what is called the " Reconstruction " of our country ; it is to be applied to our commerce, our industry, our education, our social state, and is to be the scales in which we weigh leagues and alliances.

The object of a national policy is to make ourselves secure as a nation, and the purpose of this book is to discover in what lies national security.

*Essentials of National Security.*—If we believe that the history of nations is a struggle for survival, we can hardly dare to hope that there will never be another war. There has been a war in every century and almost every generation since the world began, and we may take it that war is the extreme form of the struggle for existence. Nor can we hope for security in any agreement between nations to suspend that struggle.

Those who propose with most confidence to force arbitration between nations cannot even guarantee to settle by arbitration the minor animosities of employers and employed. National interests and national instincts are forces of terrible strength which are sometimes beyond the control of the most pacific statesmen. In one century a Walpole wrings his hands ; in another a Grey.

Even if there should be a long peace by the consent of the pacific part of mankind, the struggle between nation and nation, between species and species, between system and system will continue. Even if nations were to contrive some arrangement to avoid wars of violence, the struggle would continue in other forms no less fatal to the security and independence of the weaker national systems, for a nation strong in its economic organisation could still enslave other nations without a battle and sack them without an invasion.

The League of Nations to ensure peace is founded upon certain plausible fallacies. It rests upon a franchise of present military and naval power, ignoring the growth and decay of nations. It ignores also the eternal struggle between separate national and economic systems which are the root of war. In sum, it permits the cause while forbidding the effect.

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The nation which desires to survive must keep itself in good health and strength, just as the individual. The calamity of war may be avoided by the strong : it cannot be averted by the weak.

In what, then, does our national security consist ? Before the war we placed our faith in the strength of the Navy—we even measured our security in terms of Dreadnoughts. A few, dissatisfied with this protection, proposed a National Army, and our statesmen sought to strengthen our position with alliances and agreements. But we now see that with a strong Navy, a strong Army, and many Allies, we are still insecure.

A nation may be defeated by a failure in spirit or a failure in material, as well as by the defeat of its armed forces.

Spirit and material in a nation are as closely knit together as the spirit and body of man. How far the spirit affects the body and how far the body the spirit will always be in dispute between doctors and divines. So in a nation. How far spirit inspires material and how far material supports spirit is difficult and perhaps impossible to decide.

Yet it is certain that the spirit affects the destinies of nations as of men. In the nursery we learn that by a superiority in spirit the

dwarf may kill the giant. Invincible will, moral courage, mental resource—these spiritual qualities decide no less the fate of nations than of men, and history is strewn with the bones of giants defeated by dwarfs. The giant Russia fell because she was betrayed by what was false within.

Upon our national spirit our existence depends. Yet our Minister of Education said some little time ago that for schoolmasters to teach patriotism to our children was contrary to the idea of British liberty. Fortunate and unfortunate are we in this, that the instinct of our people is sounder than the intelligence of our rulers !

Security depends upon the national spirit ; but the spirit grows like a flower out of the soil of material things. It is like our English rose. The blossom is in the sun but the roots strike down into the heavy clay, from which by some natural chemistry its fragrance and colour and strength are drawn. So the national spirit blooms from the national life.

The spirit is the patriotism of the nation, or its instinct of survival. Its strength must in some measure depend upon the purity of the national breed. For that reason easy naturalisation is dangerous to the security of a nation.

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We do not know how many generations it takes to make a patriot, but he is not often made in one. Hence a large population of alien birth is a weakness to a nation. But a nation is not only, or altogether, or sometimes even at all, a racial unit. It is also a political and economic unit. We might indeed define a nation as a body of people bound together by common instincts and common interests.

Common instincts depend upon common interests. And opposing interests in a nation may divide and weaken the national spirit. Interest we may define as the means of life. And the means of life govern the instinct of men and nations.

If the means of life in a nation are in the main common to the whole nation, the instinct of the nation will be strong: if they conflict the instinct of the nation will be weak, in the measure which the conflicting interest bears to the common interest. Thus, if a part of the British nation were to have their interest in Germany rather than in England, the spirit of England would be diminished by that part. And if the Government of England were to depend in any measure upon that part of the nation whose interest lay in Germany, the Government would share in that weakness.

Let us take again the example of Russia. There were two conflicting interests in Russia. The national interest sought to make itself secure and independent of Germany by using its own raw materials for its own manufactures. But this national interest conflicted with the great interest of Russia in the exportation of grain to, and the importation of goods from Germany. Germany succeeded in preventing a transfer of this interest to Russia's allies by closing the Baltic and the Black Sea. And this great interest of Russia working against the national policy of independence reduced her to civil war and defeat. The agents of the German commerce were the agents of the Revolution and the agents of the peace. If Russia had possessed an industrial system of her own, which would have consumed her own grain and produced her own munitions, she would not thus have been defeated. Her interests being common, her spirit would have been united, her spirit being united would have been strong.

The security of a nation will be found to rest upon its economic sufficiency, and upon the unity of its interests.

A nation may live altogether upon the production of raw material, or partly upon the production of raw material and partly



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upon manufactures and commerce, or altogether upon commerce.

If a nation lives altogether upon the production of raw material, its commerce will be in the hands of foreign nations and it will be divided and weak. England in early times produced wool, hides and tin. Her commerce was in the hands of the Hansa and Lombard towns. She was both insecure and divided in spirit, for ships, arms and money were the monopolies of those who exported her raw material. Her foreign and domestic policy were dictated by the Empire and Rome. Manufactures and commerce had to be created before England won her national security and independence under the Tudors.

At the beginning of Elizabeth's reign, according to Dr. Cunningham, the Spaniards "contemptuously calculated that it would be an easy matter to conquer England because she lacked armour." By the end of her reign the making of ordnance had been brought to such a pitch that the Spaniards were reduced to smuggling English cannon into Spain.

If a nation lives partly by production and partly by commerce, she will be united and strong if her commerce depends upon her production; but she will be divided and weak if her commerce is in conflict with her

production. And in commerce we may here include banking, which is the commerce of money, and shipping, which is the commerce of freight. Thus, if the commerce of a nation depends in the main upon the exportation of raw materials and the importation of manufactures, there is a conflict of interest. For part of the nation will desire to use their own raw materials for their own manufactures and to protect their own productions against the productions of foreign nations. They will also desire to use their savings, which are the stored energy of their production, for the development of their productive power, and their ships for the service of their industries. But those merchants whose interest is the export of raw material and the import of manufactures will desire the contrary. There will thus be a conflict of interest, and a division and weakening of spirit.

If, on the contrary, a nation uses its own raw materials in its own manufactures, the commerce of the country will then depend upon its production : its surplus will then be exported in exchange for those things which it cannot produce, and its resources will be used to the highest power of support and security. Its merchants will find their main profit in the sale of its wares, since

manufactures are in general of higher value and less bulk than raw material. The producing, manufacturing, and mercantile interests of the country will belong to a common system and have a common interest. The nation will be united and therefore strong in spirit.

This unity and strength of spirit will be supported by material and the skill and energy to use it, and the more complete the producing, manufacturing, and commercial system the greater will be the security of the nation.

For let us take the last case, of the nation which lives altogether upon commerce. Its interests will be divided between those nations which produce the materials of its traffic. From one nation it may take its arms, from a second its ships, from a third its food, from a fourth its clothes and so on. Or it may take arms, ships, food and clothes from a single nation. It will then depend upon a foreign nation or nations for its means of existence ; its existence will in fact depend not upon itself but upon others. In itself it will have no security. The interest of Holland was founded upon her fisheries and her manufactures. She developed a great trade and neglected her manufactures. This trade came to depend in the main upon the sale of English cloth, French linens and lawns and other foreign

wares. When England and France passed navigation laws and marketed their own manufactures in their own ships, the foundations of the Dutch system were destroyed. When the Dutch retaliated they were overrun on land by the French and defeated at sea by the English, and were neither sufficiently strong nor united to protect themselves. They were deprived of their main wealth and continued to exist merely upon the sufferance of their neighbours.

Thus we see the security of a nation both in spirit and in material depends upon production, and that national security depends upon economic security. That is to say, the security of the nation depends upon the materials essential to security, and the measure of the security is the measure of the nation's control over these materials. For complete security there must be complete control.

Thus if a nation is in control of its own food but not of its own steel, it may be defeated. If it produces its own steel but cannot feed itself it may be starved. If it lives on an island and depends on shipping, but lacks the plates and steel forgings of which ships are built, it is insecure. If it lives by the sale of woollens or cottons but does not control sheep's wool and cotton wool

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it may be robbed of its livelihood. If part of the people live by making sweetmeats, jams, biscuits and pickles but do not control the sugar essential to these manufactures, that part of the nation is a source of weakness and insecurity. So if part of the nation lives by making boots and shoes but cannot find the leather, we have another source of insecurity and weakness. If we can found our own cannon but cannot harden our own steel; if we can weave but cannot dye; if we depend upon electricity but cannot produce electrical machinery, we are in these respects insecure.

As all industries are based upon raw materials, the security of the raw material is the foundation of industrial security. But as industries also depend upon one another for their security as much as upon themselves, it is essential to the security of the nation that it should command not only the raw materials which are essential to its industries, but those industries which are essential to one another. When a nation controls both the raw materials and the industries necessary to its safety, only then has it a complete economic system. In other words, it has a complete economic system only when it is secure.

*Economic Aspects of Security*—Here, then,

we are faced with a new element in economics—Security. Adam Smith indeed discovered it, but treated it as an exception, not as a ruling principle. In considering the Navigation Laws he admitted that Defence is of much more importance than opulence. But if security is of more importance than cheapness in one necessity, it is more important than cheapness in all necessities. Let us ask ourselves this question: Which should a nation desire more in its economic system—cheapness or security? We must answer that security is more important than cheapness.

But if security comes before cheapness, it follows that security before cheapness must be our guide in shaping our economic system. This principle of security must supersede the principle of the natural division of labour and the principle of buying in the cheapest and selling in the dearest market.

We must subordinate cheapness to security. If a raw material is necessary to our security we must seek to obtain command of that raw material, even though it may be cheaper to buy it from a source outside our control; if an industry is necessary to our security we must seek to plant that industry inside our own system even although it might

be cheaper to buy the product of that industry abroad.

Thus, for example, under the principle of the division of labour it might be profitable for England to devote her energies entirely to banking and trading, and for Germany to devote her energies entirely to steel production and manufacture. England might then have all the gold and Germany all the means of taking the gold. In the hand of the one is the money-bag; in the hand of the other the revolver; the one has the strong-box, the other has the pickaxe, the jemmy and the dynamite. If Life is a struggle for existence it is clear that such a division of labour could not last. Those who held the steel would either take the gold or take tribute of the gold.

We see then that the consideration of cheapness may come in conflict with the consideration of security, and that security comes before cheapness.

*Evolution of Economic Systems.*—If there is a struggle between nations, there is also a struggle between the economic systems of these nations. The economic system is the organisation of the national life. It is composed of basic and secondary industries, commerce and banking, and in a

national system all these activities are interknit and interdependent. If the organisation is strong the nation is strong : if it is weak the nation is weak.

We might compare a national system of industry and commerce to a natural organisation, say a tree. It is in a constant state of evolution, of growth or of decay. When it is young and weak, its life is precarious. It may be deprived of light and soil by a greater and older tree under whose shade it vainly struggles to grow. But if it survives it pushes its branches upwards and outwards far and wide and kills rival growths by its own roots and its own shade. And so we might speak of our British oak whose roots go down through the soil and lay hold upon the rock, whose unseen alchemy changes the raw material of earth, air and water into the nourishment of life. And we might perhaps compare its million leaves which are taken on every spring and shed every autumn, to the successive generations of our people ; they live by the tree and by them the tree lives. If we go back into the history of this oak we shall find it was once a sapling struggling for air and sun under overshadowing growths of more ancient timber ; if we follow its prime we shall see that its victorious rise



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and spreading branches conquered great rivals and that its roots have constantly made new soil their own. If we were to press the analogy further we might say that its acorns taking root carried its victory farther and grew up to be its shield against the gales of war; but might themselves sometimes become the rivals of its sway and sovereignty.

This is not merely a fanciful view of a national economic system. For if we study a nation's industry and commerce we see that—

(1) They make up a living and developing organism ;

(2) That they struggle with other such organisms for existence, and

(3) That in this struggle the security of the whole nation is involved.

Here again we find ourselves in conflict with Adam Smith's conception of industry and commerce. For Adam Smith saw nothing organic in either ; he did not see their mutual interdependence ; he regarded commerce with other nations as an operation of exchange of equal benefit to both sides and not as a struggle and exploitation ; he was so far opposed to industrial and commercial organisation that he objected even to joint stock companies except for public purposes ; and

he made a sharp division between the producers and the consumers of a nation, considering that the interest of the leaves was opposed to the interests of the roots.

We find ourselves equally in conflict with Karl Marx's conception of industry and commerce. For Karl Marx took the struggle to be not between one national economic system and another but between one part of that system and another part, between the roots, let us say, and the leaves, or between the trunk and the branches. There is certainly this basis of truth in the Marxian conception, that a struggle may be traced between one part of an organism and another part. Branch may struggle against branch, leaf against fruit, for its share in the general sustenance; as labour against capital or class against class in an economic system. But this struggle is subordinate to the greater struggle of the whole organism against other organisms, of the whole tree against other trees. For, again, the greater contains the less: root and branch and leaf must die if the tree die. Labour and capital alike fall if the industry fall; and the industry is likely to fall with the fall of the national organisation of which it is a part.

The struggle for the division of the means

of life must be subordinate to the struggle for the means of life. For if the industry or the nation is deprived of the means of life, there is nothing to divide.\*

As nations depend on their economic systems for life we arrive at this conclusion :

That the struggle between nations is a struggle between economic systems, and that national security therefore depends upon the strength of the economic system.

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\* Here it may be noted that divisions and hatreds between classes are most apt to flourish in nations which neglect or betray their industries. The cause of the French Revolution was not political but economic, and arose from the destruction of the French manufactures by reason of the Eden Treaty. John Wheeler in his "Treatise of Commerce" (1601) tells how the Duke of Parma and the Hanse Towns hoped to produce "a commotion of the Commons" in England "for want of work" by their embargo on English cloth. And Francis Bacon in his essay, "Of Seditions and Troubles," suggests as the best remedy for what we now call Bolshevism, "to remove by all means possible that material cause of sedition whereof we spake which is want and poverty in the estate. To which purpose serveth, the opening and well-balancing of trade; the cherishing of manufactures; the banishing of idleness; the repressing of waste and excess by sumptuary laws; the improvement and husbanding of the soil; the regulating of prices of things vendible; the moderating of taxes and tributes, and the like."

## CHAPTER II

### THE ECONOMIC SYSTEM

*Agriculture.*—The foundation of our security lies in the control of raw material. Industry without control of raw material is a building without foundation. And here we must begin with agriculture, since it yields the raw material of the nation itself. It is the land upon which our national life has grown, the soil in which our English oak has its roots. A nation cut off from its own land is like a ringed tree which no longer draws life from the earth. It must soon die. A nation which neglects tillage is like a town dweller who has forgotten the country. Growth and production, the progress of the seasons, seed-time and harvest, these natural processes, upon which the very life of man depends, have lost all meaning to him. He has fallen out of touch with reality, and is in danger of forgetting the meaning of things. He may seem to thrive for a time and grow fat, but

if his children are like him, his family will decline and dwindle and disappear, for the country is the great renewer and invigorator of the town, and tillage may be called the tap-root of the nation. It yields not only food, but manhood. It gives to industries their workers and to the State its defenders.

So important is it to the national economy that some economists have called it the only productive industry, and have been willing to see their countries depend altogether upon agriculture. In France, the philosopher Rousseau and the economist Quesnay followed the statesman Sully in this exaggeration, from which Adam Smith hardly escaped.

Yet it is certain that a nation which depends altogether upon agriculture will be both poor and weak. Its food will depend upon the precarious gifts of its own seasons, a bad harvest may bring dearth, and two bad harvests famine, and, as other things are necessary to life, and the produce of agriculture is of great bulk in comparison with its exchange value, it may have to go short even in plenty, for it will have to sell a great part of its production in exchange for these other necessities. Some part it must sell to clothe itself, some part to provide itself with iron and the implements of war.

The agricultural nation will be poor because the exchange will generally be against it. Moreover, if it cannot provide weapons, what remains to it of its produce may be taken from it by armed force. The nation which depends altogether upon agriculture will be poor, weak, and tributary. So we see that Russia, depending too much upon tillage, became the helpless victim of Germany.

A nation cannot be secure without agriculture, but agriculture alone will not give it security.

Agriculture is an industry, and, like all industries, struggles for its existence against similar industries in other nations. In early times, nations which depended mainly on the land waged war for soil, but the produce of the soil had at first its protection in the scarcity of land and sea carriage. Yet we may trace the struggle between systems of tillage very far back in our economic history. Thus Stow, in his "Survey of London," says that the German merchants of the Steelyard "were great merchants of corn brought out of the east parts hither, in so much that the occupiers of husbandry in this land were enforced to complain of them for bringing in such abundance when the corn of this realm was at such an easy price ; whereupon

it was ordained by Parliament that no person should bring into any part of this realm by way of merchandise, wheat, rye, or barley, grown out of the said realm, when the quarter of wheat exceed not the price of 6s. 8d., rye, 4s. the quarter, and barley, 3s. the quarter, upon forfeiture the one half to the King, the other half to the seizor thereof."

Throughout the seventeenth and eighteenth centuries our agriculture thus protected itself by sliding scales and duties against the agriculture of Northern Europe, and even against the produce of our own colonies. In our wars of the eighteenth century the sufficiency of our agriculture was one main source of our security. We could subsist upon our own corn. This sufficiency of food was a chief part of the national self-sufficiency which enabled us to face in arms an alliance of almost the whole world, whether in war or in armed neutrality against us. We could shut our markets to Russian grain, and we thus forced Russia out of the armed neutrality and brought down Napoleon's continental system.

Yet, if we look close into our history of the eighteenth century, we see a conflict between tillage and manufactures, which afterwards developed to the weakening of the State.

The English farmer had most to fear from the grain of the Baltic, and looked upon France as a customer for his occasional surplus of corn. The manufacturer of English cloth had most to hope from Northern Europe, which was the first market for woollens, and most to fear from France, which was the rival manufacturer. Thus the country interest was, in the main, Tory, and favoured France; the manufacturing interest was, in the main, Whig, and favoured Hanover. The dangers of war to the existence of a nation united the two great interests under Chat-ham and the younger Pitt, but when France was defeated at Waterloo, and England seemed secure, this great conflict broke out again and destroyed our national economic system.

In 1826, one, William Jacob, was sent by the British Government to report upon Northern Europe and "all facts that bear on the subject of the changes that might be produced if such an alteration was made in our laws as would leave our markets at all times accessible to the corn grown in Poland." Jacob reported that in maritime Prussia the people lived upon rye bread from necessity, and grew wheat entirely for export. Such is the fate of a people which depends solely



upon agriculture. Our manufacturers, fearing nothing from a poor country like Prussia, proposed that the Prussian should supplant the English farmer in the production of food for the English manufacturer.

This proposal was supported by a new argument when Prussia took to protecting her industries. Sir John Bowring was sent to report upon Germany by Lord Palmerston, in the year 1840, and here is the sum of his report: "Were foreign markets accessible to the German agriculturist, there is no doubt the flow of capital towards German manufactures would be checked, first by the increased demand for agricultural labour, and secondly by the loss of the advantages which the German artisan now possesses in the comparative cheapness of food."

It was a false train of argument. Germany both sold us her corn and protected her manufactures, and when American corn made the export of Prussian wheat unprofitable, the Prussian farmer supplied us with sugar. Thus Germany secured her manufactures without abandoning her agriculture. In so doing, if she lost in wealth she gained in security. England, on the other hand, abandoned security in the pursuit of riches, and if she gained in wealth, she lost in safety.

We need not attempt to make a sum of the loss or gain in wealth, since we have put security before cheapness as the object of our policy. Yet, here we may say that even if we consider wealth alone and define wealth narrowly in terms of exchange values, it is still doubtful if Germany lost by her policy and we gained by ours, for a decline in tillage means decay in the home market for manufactures, and decrease in the supply of industrial labour. But if we put the question to our test of security, we cannot doubt that the neglect of our agriculture weakened us in a double sense: it weakened us and it strengthened Germany.

Germany supported a good part of her man-power on the beet fields of Prussia.

As we depended upon Germany for part of our food, mostly sugar, so war with Germany deprived us of that part.

As we depended upon foreign countries for part of our food, so we feared to stop the trade between these foreign countries and our enemy:

A country which depends upon other countries for food cannot be strong in its naval policy. It is the excuse of our Blockade Ministry for the failure of our blockade that we did not dare to offend America, as we

depended upon America for food. If this excuse be valid, it proves that dependence upon other nations for necessities leads to weakness in war, even when those other nations are neutral.\*

As we depended upon countries in the power of Germany for food, so war with Germany deprived us of that food.

Denmark and Holland were both in the power of Germany. Before the war our policy turned these two countries into high-power food factories. When we went to war with Germany these factories were diverted from our service to the service of our enemy. We created a power of food production which Germany used.

Further, we depended partly for our food upon Sweden and Russia. Germany was able to cut off these sources of supply by closing the Baltic and the Black Seas.

In other ways the decay of our agriculture led to insecurity. It weakened our national spirit and it weakened our man-power.

The weakening of our national spirit was seen chiefly in Ireland. As Ireland depended

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\* It is, however, only fair to Americans to say that according to some authorities we were unable to enforce a strict blockade upon the trade of neutrals because we had not the virtue to enforce it upon our own.

most upon agriculture, so Ireland felt most the destruction of agriculture by free imports.

The Irish famine and the emigration of Irish peasants were both results of the Manchester policy. The root of the bitterness between Ireland and England is this injury to Irish agriculture.

In our wars with Napoleon Irish infantry and Irish grain were two main sources of British strength and security.

In the present war Ireland has required more grain for her food and more men for her defence than she has produced.

Thus, both at home and abroad, in spirit and in material, our security has been diminished by the decay of our agriculture.

*Industry.*—If we go back far enough in the history of England we shall find that our economic system is based upon English wool. For centuries England was the producer of wool for the looms of Lombardy and Flanders. English wool was famous throughout Christendom. The wool of Spain might be softer and finer, but the wool of England was necessary to strengthen the warp of the Flemish cloth. Flanders and Lombardy struggled for the English clip. The Hanseatic League, the great sea carrier of Europe in the Middle

Ages, in allying herself with Flanders gave her the victory. Thus, the weavers of Ghent and Bruges based their industry upon a foreign raw material, and the economic history of England is a long and persistent struggle to turn from the export of wool to the export of cloth, to use her own wool for her own looms and to export her cloth in her own ships. The older economic systems of the Empire and of Flanders used all means to stop and retard the growth of the younger and weaker system, but at last we shall see the victory of that system which controlled its own raw material, and the defeat of that system whose raw material depended on the grace and courtesy of others.

We may suspect that as William the Norman was allied with the Count of Flanders, one of the objects of the Norman Conquest was to secure English wool for Flemish looms. A decay in the rude English weaving industry has been traced from that time, and our oldest English ballads are a complaint of the export of our means of livelihood. Simon de Montfort, the greatest of our early English patriots, ordered his followers to wear as the badge of their party and the emblem of their policy the rough undyed English cloth which was then the only product of our looms, and

his first act when he secured the control of English government was to set an embargo upon the export of English wool at Dover. It is interesting to remember that the reply to this embargo was a papal bull of excommunication, the weapon no doubt of the cities of Lombardy, and the invasion of England by Richard of Cornwall, King of Germany, the protector, or the tool, of the Hanseatic cities. As our looms were not then sufficient to take up our English wool clip, the great flockmasters joined the royalists, and Simon de Montfort was overthrown and killed at the battle of Evesham.

So completely did this English wool trade fall into the hands of foreign merchants that Courts Merchant were appointed by the Edwards to settle disputes between natives and aliens, and these Courts Merchant consisted of two Italians, two Germans, and two Englishmen. Thus in his own country and in his own courts the Englishman was placed in a minority by the overshadowing strength of the two greater commercial systems.

We find that Edward the Third, when he failed to win the Flemings over to his cause in his wars with France, took his revenge by planting Flemish weavers in England. We

find also that the Hanseatic League, being given a preference in the export of English cloth over both natives and all other foreign merchants, deserted the cause of Flanders and took to exporting English cloth. When Bruges protested in the interests of Flemish weaving, the City of Antwerp was ready to make easy wealth by the importation. Thus the great weaving industry of Burgundy was betrayed by its own fundamental weakness of depending upon foreign raw material.\*

We find, however, that for a very long time the Flemings maintained a secondary industry in the finishing, dressing and dyeing of English cloth. English cloth was exported as "whites." The Flemings prepared it for market, set their own seals upon it, and re-exported it throughout Europe, and in the sixteenth and seventeenth centuries the English made the same fight for the dressing, the finishing and the dyeing of English cloth as they had made in earlier

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\* "The King and State began now to grow sensible of the great gain the Netherlands got by our English wool, in memory whereof the Duke of Burgundy not long after instituted the order of the Golden Fleece, wherein indeed the Fleece was ours, the Golden theirs, so vast their emolument by the trade of clothing. Our King, therefore, resolved if possible to reduce the trade to our own country who as yet were ignorant of that art." — *Fuller*.

times for the weaving of English wool. Thus Elizabeth ordained that every thirteenth cloth exported from England should be "rowed, barbed, first-coursed and shorn." This measure failed to attain its end, and James the First totally prohibited the export of "whites." The Dutch replied by an embargo upon English cloth and carried their point, but in the end Cromwell by a war forced upon the Netherlands the free importation of English cloth, and by the time of Charles the Second English cloth was carried through all the stages to the finished article in England. The Dutch were reduced to the position of carriers and merchants, but that position was also weak for the reason that those who produce the wares are in the best position to market them, and in the end the Dutch commercial system was destroyed by the attacks of the two great cloth producers of the eighteenth century, England and France.

Thus in the evolution of our system we see wool changing to cloth and cloth developing from rough, undyed frieze into all the exquisite varieties of modern weaving. And we learn these lessons :

That the security of an industry rests on the control of its raw material, and that the



development of an industry is a constant struggle against the industries of other nations.

But we trace from wool also many secondary industries. We find, for example, in the sixteenth century the English exploring all countries for dyes, discovering the secrets of woad in France, of sumach in Spain, of reds in Turkey, of indigo in the East, and thus establishing in England an industry of dyeing upon a sound foundation; and we find the English Government smuggling in Italian and German prospectors to discover deposits of alum and copperas necessary to the dyeing and dressing of cloth.

In the same way our brass industry was based upon our wool. Wool cards of brass were at first imported from the Continent, but in the time of Elizabeth we find German metallurgists brought into England to prospect for spelter with which to make brass wire for the production of wool cards. Two great companies organised by the English Government, the Society of Mines Royal and the Mineral and Battery Works, produced this brass from English spelter, copper and iron. The importation of wool cards was prohibited, and the brass wire industry placed upon the secure foundation of the home market for English wool cards. Learn-

ing the secrets of brass manufacture, the Mineral and Battery Works took to founding brass ordnance, and English cannon were soon famous over Europe.

Here, then, we see both the true foundation of industry in the command of raw material and the interdependence of one industry with another.

So we might follow the history of our other raw materials and trace their evolution into industries.

In early times our tin mines were leased to German capitalists, and our tin was exported to Germany. Thus the Black Prince leased the tin mines of Cornwall to Tidman von Limbergh for a hundred years. Iron mines in Yorkshire were also worked by the German merchants.

The German merchants imported steel in blooms, called osmund iron, and they also imported the products of steel and iron.

At the beginning of Elizabeth's reign the Spaniards calculated that they could easily defeat England because she lacked armour.

English adventurers under the protection of Government thereupon organised an "integrated industry" on the basis of the English mines.

The Society of the Mines Royal and the

Mineral and Battery Works formed together an "integrated industry."

It owned zinc mines in Somersetshire, copper mines near Keswick, and brass was made from the two ores at brass factories in London and Nottingham.

In Monmouthshire the company had iron mines for the production of osmund iron, and from the iron pockets of Sussex iron cannon were made.

The organisation of this industry was bitterly opposed by Burgundy and the Hanseatic League, both at that time part of a great imperial system, which included Germany, Burgundy, Spain, and Italy.

When Queen Elizabeth protected the arms and allied industries, the Duchess of Parma, then Governess of the Netherlands, prohibited the export of all raw materials necessary to those industries, and the importation of English cloth.

The English merchants sought to evade this embargo on their cloth trade by exporting to German ports, and the prohibition was thereupon extended to the Empire.

The end of this struggle was the Spanish Armada, in which the English arms industry had its first great victory.

This victory rested upon the sure founda-

tion of the raw material. Just as English cloth gained a victory over Flemish cloth by the control of English wool, so English arms gained a victory over Spanish arms by the control of English iron, copper, and zinc.

The Spaniards had depended for most of their metals and arms upon the Empire, and by the end of Elizabeth's reign the Spanish Government was offering great bribes to those who could smuggle in English cannon.

The great English industry of mechanical engineering grew from the English weaving and mining industries. Arkwright, of Preston, invented his spinning frame before 1769, and steam was applied to it by 1785. The atmospheric pressure engine was invented by Newcomen in 1705, and was used to pump water out of the Cornish mines. James Watt's steam-engine came half a century later, and was developed like Newcomen's on the basis of the mining industry.

These humble mechanics, Watt in his little room in Glasgow College, Arkwright in his barber's shop at Preston, the Stephensons in their Northumberland cottage, worked between them what is called a revolution in industry. It might be more accurate to call it an intensification. They gave to industry a new power, but they did not

change the principles upon which it rests.

The new power first strengthened the industries for which they worked, but the strength spread from industry to industry throughout the British industrial system. The new industrial power multiplied the economic power, and the economic power the political power. England rose suddenly like a giant over all rival nations. In 1786 the French were so rash as to open their markets to British products. The new British power rushed in and overwhelmed French industry, and the fall of the French State in the ruins of the Revolution was the natural consequence. The industrial system of India, founded on the hand loom, fell back with hardly a struggle into agriculture.

This defeat of rival industrial systems gave to England her supremacy over the world, and this supremacy lasted until other nations learned its secrets and built up their strength upon the same principles.

For England the victory and the security gained thereby were so complete that she forgot the foundations upon which it rested.

*Trade.*—Just as industry is founded upon raw material, so trade is founded upon industry. English trade was founded upon

English cloth. This was a truth well known to our ancestors. Thus, in an Elizabethan pamphlet called "The Golden Fleece," written by one "W. S., Gent," the writer concludes his examination of the English woollen trade by making what he calls a short survey of some principal "immunities" which clothing has conferred upon England: "It hath produced such opulent and magnificent societies of merchants as the whole world cannot again demonstrate, that is to say, the Merchant Adventurers' Company, whose governors, presidents, consuls, and like officers are not of less esteem (where they please to seat themselves) than are the residentiaries of the greatest princes." He might, indeed, have said that our ambassadors and consuls were in several cases maintained and housed by these national companies, but he proceeds: "This company hath by their policy and order supplanted those societies of the Hans towns," who controlled our markets and shipping in spite of the small amount of our cloth they had exported; "whereas," he goes on, "at this day the Merchant Adventurers had uttered ten times as many cloths annually and at farre better prices." Moreover, "this trade of clothing and this company of Merchant Adventurers

have furnished the Navy Royall" with so many ships that they had no reason to fear the greatest naval forces sailing the seas, "especially," the writer says, "in the year '88," when, as a matter of fact, the Merchant Adventurers' Company contributed a hundred armed ships to defeat the Armada. The writer goes on to enumerate the other companies: the Eastland Company, which "well supplied the trade of clothing all about the Baltic Seas and employed many war-like ships and great numbers of mariners in that trade"; the Muscovia Company, which had discovered the passage of the North Cape; the Levant and Turkey Companies, and the East India Company. The trade with France and Spain had helped to make England's sea power. . . . "This France and Spain had found to their cost and England to its great security." And the writer proceeds to point out that as these blessings had befallen to England by the trade of clothing "politiquely and providently drawn into societies, companies and corporations, so loose transactions of trade in these countries have rendered them so poore at sea as were it not for the ships of England and Holland the very life of commerce would perish."

Let us confirm the general truth of this

summary. The origin of the Merchant Adventurers was the Brotherhood of St. Thomas of Canterbury, and Canterbury was the cradle of English weaving. The charters and constitution of the Company showed that a Freeman must be a wholesale cloth-merchant. He was forbidden to deal in "retayle or cutting out" or to "keepe open shoppe or shewhouse upon paine of three skore pounds," and he was forbidden also to trade in wool. The Company was formed of "almost all who traded in the woollen manufacture to Germany or the Netherlands." Only wholesale merchants in English cloth could be members of the great organised Company which conducted our foreign trade. What "the common weale of this realme doth require," says Hakluyt, was "an ample and full vent of this noble and rich commodity of English cloth." Such was the foundation of our foreign commerce. It rested upon the basis of English industry.

But just as the evolution of industry was a constant struggle against foreign industry, so the evolution of trade was a constant struggle against the foreign trader. In this struggle the individual merchant had no chance of surviving. The Society of German Merchants of the Holy Roman Empire, now commonly called the Hanseatic League, had at one time



almost the monopoly of English commerce. They were a confederation of seventy German cities led by Lubeck ; they had a monopoly of the Russian trade and of the trade of the Baltic ; they had command of all naval stores and therefore of shipping ; they controlled silver which was then the currency of Europe. By the ruthless use of these advantages and by the strength of their combination they sought to crush the native trade of England.

The early history of English trade is the history of the struggle between the English Company of the Merchant Adventurers and the Society of German Merchants. If we examine the constitution of the Merchant Adventurers' Company we find it to be an imitation of the Hanseatic League. Thus the Merchant Adventurers were like the Hanseatic League upon a national basis. Only natural-born Englishmen " of father and mother both English " were admitted to the fellowship. No Merchant Adventurer could marry a foreign wife or hold real property abroad. All the chief towns of England—London, Norwich, Bristol, Boston, York, Hull, Exeter, and so forth, had their societies of Merchant Adventurers, and although these Merchants traded with their own stock, they

combined for purposes of common defence. In the time of Elizabeth there were some three thousand five hundred Merchant Adventurers in all. They were united by an oath to be true to their King and country. They fought the Germans at sea whenever they met them and just as the Hanseatic League made loans to the kings of England in order to secure its commercial privileges, so the Merchant Adventurers raised money among their members to make a loan to the Emperor and thereby influence his policy. We may say that they fought step by step for their right of marketing English cloth in the North of Europe and that at every step they were opposed by every weapon which the wealth and power of the Hanseatic League could bring against them.

Thus we see the organisation of trade evolving as a weapon in the struggle between nations.

But we find in tracing this struggle that the victory rested with the trading organisation which was founded upon industry. The Hanseatic League had traded first in English wool and then in English cloth. They had not sought to support either German wool growing or German weaving. The English founded themselves upon English cloth, and

secure in this foundation they drove the German traders first out of their own markets, then out of the markets of the Netherlands, and lastly out of their home markets in Dantzic and Hamburg. The Alderman of the London Guildhall of the Society of German Merchants of the Holy Roman Empire wrote from the Steelyard to the Senate of Lübeck on the 23rd February, 1581: "How abominable that such a Company (the Merchant Adventurers) could suppress the Hanse considering that at other times a few Hanse towns have kept the whole Kingdom of England under their thumbs." At the end of the struggle, in the seventeenth century, the English Merchant Adventurers were supreme, not only in Antwerp but in Hamburg. By the eighteenth century Dantzic had also become a depot of the English cloth trade, and a hewer of wood for the English Navy.

The organisation of trade is necessary to the security of a nation.

The two main objects of trade, the supply of raw material and the sale of the finished article, are both in the nature of a struggle and both require to be supported by the strength of a national organisation.

Shipping is a branch of commerce and should be founded on the national industry.

*Shipping.*—We have seen that the Hanseatic League founded its security on its monopoly of marine stores which at that time came from the Baltic. Hemp, pitch, tar, timber and other naval provisions, were under the control of Lübeck and were used by the League to secure a monopoly of sea carriage. To break this monopoly the Merchant Adventurers organised a subsidiary Russia Company in the reign of Edward the Sixth. The Russia Company obtained for a time an independent supply of naval stores by sailing round the North Cape to Archangel and obtaining a charter from the Czar at Moscow. But when the “badde dealings of the Easterlings,” in other words the intrigues of the Germans, almost drove us out of that trade, our Merchant Adventurers explored Newfoundland and North America for an independent supply of shipping material.

When the Germans ruled the seas, German ships were strongly manned and heavily armed. They drew their crews from the Baltic Fisheries in the days when the herring sought refuge in the Baltic from its enemy the whale. When the Dutch whalers chased the whale northwards, the herring changed his habits and came down into the Channel. Then Dutch shipping grew strong on the

herring fisheries ; but the Germans abandoned fisheries for trade and sailed their great hoyers with three or four men and a boy, " depending on their amity with the Spaniard."

When Englishmen began to sail the sea they were crushed by the armed strength of the German. The German towns, upon various occasions, drove the English (and the Scotch) out of Bergen, out of Iceland, out of the Baltic and out of Russia. They blockaded London, Lynn, Boston, and Hull, and so destroyed our shipping by organisation and armed force.

The Hanse Towns had their Navigation Law of " Hanse goods in Hanse ships," and maintained a jealous monopoly. The Edwards, who depended on the Hanse for loans and for the carriage of their armies, supported the German sea supremacy, and even forbade English ships to carry English goods. Richard the Second passed the first English Navigation Law and declared war against the Hanse with a Navy of three ships. He was defeated. Henry of Lancaster made a peace with his old comrades the Teutonic Knights, which was in effect a surrender of the English shipping interest. Warwick the Kingmaker took up the quarrel when he was Lord High Admiral ; he captured a Hanseatic

fleet in 1458, and for that reason was dismissed from office. We may trace this quarrel between English and German shipping through the wars of the Roses. Thus the Dantzic Chronicler writes of the year 1469: "There was great discord in England amongst the Lords, one of the reasons being the (German) merchant . . . as for many nobles and the common folk who hated the German merchant (*den deutschen Koffmann hagerden*) they went with any lord who did what they wanted." Edward IV., when he quarrelled with Warwick, was supported by the Hanseatic fleet, and Pauli and Lappenberg agree in ascribing the victory of Edward to German sea-power.

The English Merchant Adventurers, deserted by their Government, organised themselves for a warlike commerce, and carried their cloth in armed fleets. By the time of the Tudors they were equal to the struggle.

Our shipping grew in the same conflict as our industry and our trade, and was founded like them upon production. Fishery and woollens were the cradle and the swaddling clothes of English shipping.

The Germans in pursuit of profit economised in men, depending on the protection of the Spanish Navy, the English sent out their

cloth fleets heavily armed and strongly manned, and when they defeated the Spanish Navy drove the unarmed Germans from the sea.

In shipping as in commerce organised strength defeats cheapness.

The Dutch then took over sea carriage between nations, forsaking fisheries and industry, and resting their supremacy on cheap shipbuilding and low freights; but the English and the French based themselves on production and trained great companies of seamen on the Newfoundland cod-fisheries.

Then the English and French passed Navigation Laws and carried their own wares in their own ships. The Dutch who depended upon French and English industry for their cargoes were destroyed at their foundations, and lost their sea traffic.

The base of French shipping was Canada and the Atlantic fisheries whence she drew her timber and her seamen. The English strength rested on the Newfoundland banks. There the Seven Years' War gave to England the mastery of the sea.

Cromwell's Navigation law, which was directed chiefly against Dutch shipping, completed the ruin of Hanseatic shipping. Shut out of the ports of England, the Hanseatic

vessels, which had at one time as their sailing orders, "Mein Felt is die Welt," now fell back upon the coasting trade. But when we abolished the Navigation Acts, we let the German genie out of the bottle, and "reopened to the Hamburgers the limitless horizon of long distance shipping." \*

Shipping rests more on strength than on cheapness; shipping may subsist for a time on the traffic of other nations; but in the end it will be found that the industries of a nation are the only security for its shipping.

Shipping must rest upon national security: when it becomes international it is doomed to perish.

Four things are necessary for shipping, a nursery for seamen, a strong naval power, the materials for shipbuilding, and a national industry.

*Colonisation.*—We have seen that the industry of a nation rests (1) upon control of raw materials, and (2) upon the vent or market of its manufactures secured by its shipping and commerce.

When the industries of a nation outstrip its raw material and its market, that nation seeks to secure both by colonies.

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\* Henri Hauser, "Germany's Commercial Grip on the World," p. 132.



Colonies are generally founded with these two main objects, to secure supplies of raw material and to secure a market for wares.

The planting of colonies is part of the struggle between nations. In early times England planted a colony in Bergen in order to secure a supply of naval stores ; but this colony was driven out by the German merchants. English attempts to gain a footing in Dantzic and in Russia were defeated by the same enemies.

That great and gallant Elizabethan, Captain Christopher Carleill, wrote in 1583 a " brief and summary discourse upon the intended voyage to the hithermost parts of America " in order to persuade the London merchants of the Muscovy Company to put capital into a venture then being supported by the merchants of Bristol.

He pointed out that the intrigues of " Dutchmen," i.e., Germans, were prevailing with the Czar and driving them out of Russia, and went on :

" The badde dealings of the Easterlings (Hanseatics) are sufficiently known to be such towards our Merchants of that trade as they do not only offer them many injuries overlong to be written, but do seek all the

means they can to deprive them wholly of their occupying that way (by the North Cape to Archangel) and to the same purpose have of late clean debarred them from their accustomed and ancient privileges in all their great towns."

And Carleill goes on to remind the London merchants that not only for fish, but for "pitch, tar hemp and thereof cordage masts losshe (seal) skins, rich furs, and other such like" they were at present beholden to the King of Denmark and the other Princes who commanded the Sound.

These commodities they might expect to find in North America. Moreover, as America was bigger than all Europe, and "the larger part thereof bending to the northwards," they might expect "a very liberal utterance of our English cloth."

And we shall find this same policy to be the main text of all our Adventurers who took part in those voyages—a secure supply of fish and naval stores and a "liberal utterance" of English cloth.

To the south we sailed to obtain a secure supply of gold of Guinea and "graines" for dyeing our English cloth.

We hesitated long before we sailed to the East, as Asia had no market for English

woollens and might, therefore, consume our scanty supply of "treasure."

But in the end we adventured into Asia to secure an independent supply of spices and sugar. These groceries were then almost vital to us because in the winter we lived so largely upon spiced beef and preserved provisions.

At that time, Venice and Genoa, the chief centres of the grocery trade, had so far fallen under the influence of Spain and the Empire, that our Italian merchants were forced to look elsewhere for their commodities.

Newfoundland, that stern nurse of our seaman, was our first colony, since it gave us a secure supply of salt cod, then the staple food of sailors. But, wherever there was a market or a supply of raw material, we sought to secure ourselves by planting colonies.

In settled and closely-populated countries these colonies were what the Romans called "Collegia," the Germans "*Kontors*," and our people "colleges" or "factories." They were settlements of merchants, in fortified houses, guarded by armed servants.

But where the countries were unsettled we planted populations which grew such commodities as the Mother Country desired—sugar, cotton, and tobacco, for example—

thereby affording us a supply independent both of the Dutch and the Spanish systems.

So it came about that our national system became an Imperial system. The British Imperial system was formed in the struggle with the German, the Spanish, the Dutch, and the French Imperial systems.

The German system had been built on the control of shipping and silver ; the Spanish on the control of gold and sugar ; the Dutch on the control of shipping and spices ; the French on cod fish, furs, and sugar. In all these and other commodities the British Imperial system waged war with the other systems.

Thus, for example, Pitt swore in 1761 that he would fight six or seven years more in America to obtain the fishery, and Choiseul, his hardly less great opponent, as resolutely refused to yield. "*La pêche est ma folie,*" said Choiseul.

The fight for the West Indian Islands was the fight for the control of the sugar industry. France at one time supplied all Europe, save England, with sugar. England secured for her sugar islands a monopoly of her home markets, believing an independent supply of sugar to be necessary to her security in war.

When the British Imperial system controlled and interchanged all commodities, its security was complete.

When colonies grow they may become in themselves nations with their own economic systems. England lost her thirteen colonies because she halted between the two policies of encouraging and preventing this growth. She encouraged their shipbuilding but prohibited their iron and cloth industries. She allowed them to build ships but prevented them from using those ships in foreign trade.

Either one of two policies might have succeeded: a total prohibition or a frank encouragement. The former policy would have meant continual strife with our own sons; by the latter policy we might have lost colonies but gained allies. Distance, kinship, and a mutual preference might together have prevented conflict.

The security of market and raw material lost in the thirteen colonies was regained in Canada, Australia, South Africa, and New Zealand, which together with India and the tropical dependencies formed the second British Empire. The motives in the second case were substantially the same as in the first.

When a nation grows it looks to foreign countries for markets and for raw material.

It finds everywhere a struggle for existence, and it seeks to support this struggle by armed strength and the planting of colonies.

The security of overseas markets and raw material is better founded in colonies than in foreign nations.

*Banking.*—The trade in money, which is called banking, depends upon the security of the nation. Walter Bagehot defines money as economic power, and we might liken it to electricity. Just as electricity is stored-up energy, and can be kept for use in a cell, so capital is the stored-up energy of industry which may be concentrated for use in a bank.

Those who make money will store it in that place which they take to be most secure. De Witt, in his "Interest of Holland," says that in the Thirty Years' War money was stored for safety in the sea-girdled and well-fortified towns of the Netherlands. The Netherlands, by this security, became a great banking nation, and they used this cheap and ready money to support their world commerce. When the French armies invaded Holland and reduced their strong cities, the Dutch banks were no longer secure, and capital then flowed to Paris and

to London.\* Wars and revolutions shook the security of Paris, and Bagehot notes that after the Franco-German War Paris ceased to be the European settling-house. London then became the sole great clearing-house and bank of Europe. Bagehot, therefore, found that note issues and deposit banking were only possible in a country exempt from invasion and free from revolution. "During an invasion note-issuing banks must stop payment, a run is nearly inevitable at such a time and in a revolution, too. In such great and close civil dangers a nation is always demoralised, and every one looks to himself, and every one likes to possess himself of the precious metals. These are sure to be valuable, invasion or no invasion,

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\* Adam Smith writes of the Bank of Amsterdam with an enthusiasm which its history makes ludicrous. When the Army of the Revolution, eager for plunder, invaded Amsterdam, they found nothing in those coffers of which Smith speaks with awe, and William Jacob, when he visited Holland in 1820, says "that Dutch capital, owing to French exactions, had been partly hoarded, partly transferred to England, and partly sunk in agriculture." The dependence of banking upon national security is illustrated by Jacob's remark that under the rule of Louis Buonaparte the Dutch capitalists, "appearing to abandon all hope of employing their money again in commerce, directed it to agriculture and made large investments in land." The prosperity of Dutch agriculture, however, depended on the war, and with the peace it became unproductive.

revolution or no revolution, but the goodness of the bank notes depends upon the solvency of the banker, and that solvency may be impaired if the invasion is not repelled or the revolution resisted." And Bagehot goes on: "Hardly any continental nation has been till now exempt for long periods both from revolution and invasion. In Holland and Germany—two countries where note issues and deposit banking would seem as natural as in Scotland or England, there seems never any security from foreign war."

Thus the industry of banking depends upon national security.

But we have already shown that the security of a nation depends upon its industries. Therefore, it is in the interest of banking to support the industries of the nation.

If we trace the history of banking in England we shall find that it was founded upon the national industry, and that it was used for the support of that industry and for the defence of the kingdom.

In the Middle Ages our country was almost without money, and depended upon the capital brought into the country by the merchants of Lombardy and the Hanse towns. It was the policy of these merchants



to keep the exchanges against this country, so that they might buy our natural produce at the cheapest possible rates. They succeeded so well that in the Middle Ages you could buy a horse or an ox for a few shillings. In the middle of the thirteenth century a goose cost a shilling and a hen threepence.

These foreign merchants were the king's bankers, and they financed our foreign commerce. As the borrower is the servant of the lender, so the kings of England shaped our national policy as these foreign money-lenders and merchants directed. They were paid, not only in interest, but in licences to export wool and in franchises of trade.

The Merchant Adventurers organised themselves in order to secure the control of the national policy, and to secure that control they organised a fund, from which they offered to support the English Government. By the time of the Tudors we find them beginning to supplant the foreign merchants as the king's bankers, and as the controllers of his policy. Henry VII. both supported his merchants and was supported by them. When Germany and Burgundy made Perkin Warbeck their tool for the destruction of the English Government, Henry replied by moving the market of our English cloth

from Antwerp to Calais. This removal was the removal of the mart or college or headquarters of the Merchant Adventurers' Company.

Flanders replied by closing her ports to English cloth.

"The Merchant Adventurers," says Bacon, "being a strong company (at that time) and well dressed with rich men in good order, did hold out bravely; taking off the commodities of the kingdom, though they lay dead upon their hands for want of vent."

In other words, the Merchant Adventurers, with their stored energy of capital, financed our national cloth trade and maintained our weavers, while the king fought for their markets in Europe. The king won, the Flemings were beaten, English cloth was admitted, so that the bank of the Merchant Adventurers won a national victory for England.

But this bank was founded upon the English woollen industry.

So when Elizabeth came to the throne, Sir Thomas Gresham, one of her chief Merchant Adventurers, gave her this advice: "Come in as small debt as you can beyond seas, and to keep up your credit and especially with your own merchants, for it

is they who must stand by you at all events in your necessity."

And this great merchant laid it down clearly that financial independence and industrial strength went together, for in the same letter he advises Queen Elizabeth "never again to allow" the great freedom of the Steelyard (that is to say, of the German merchants), "for the carrying of your wool," which freedom "hath been the chiefest point of the undoing of this your realm and the merchants of the same." The German merchants exported English wool to the looms of Flanders, starved the English industry of its raw material, and thereby kept England poor and weak.

Elizabeth followed this policy of supporting English industry and English merchants.

Instead of borrowing from Antwerp, Genoa, and the Hanseatic cities she turned to the city of London and borrowed from her own Merchant Adventurers, and this close co-operation, despite one or two misunderstandings between Queen and merchants, is one of the most notable things in the history of England.

It is even said that the Merchant Adventurers organised a run on the Bank of Genoa before the Armada was to sail, and delayed

it for a whole year thereby, during which time England prepared her defences, and it is certain that when the Armada at last came, the Merchant Adventurers contributed no less than a hundred ships to the defence of England.

We see the financial and the political power drifting apart in the seventeenth century. King James quarrelled with his merchants, and turned to Germany, Denmark, and Spain. King Charles fell into debt with the Dutch, and paid them with English cannon—an act of treason in days when our cannon were as jealously guarded as the Golden Fleece or the apples of the Hesperides. Further than this, King Charles raided the treasure of the Merchant Adventurers, which was stored in the Mint, and took by force the capital with which they supported the cloth trade. It was this rupture between merchants and Government that started the Civil Wars.

Cromwell at first leaned upon the merchants and was by them supported with money for his wars in Ireland and Scotland and against Holland. But he quarrelled with his merchants when he went to war with Spain, for by that time English commerce had penetrated the Spanish Empire, and

Spain was no longer feared. Cromwell then turned to the goldsmiths, who had gone some way to develop a banking business in London. Charles II. also went to these moneylenders, and ended by cheating them of over a million by stopping the payments of the Exchequer in 1672. When William III. came over to England he found the credit of the Government destroyed by revolution and insecurity. But the merchants of London were behind the Revolution, for France was at that time the great rival of England in industry and commerce, and to support the war with France the merchants of London organised the Bank of England.

The Bank of England, according to the statute of 1694, was established "for the purpose of carrying on the wars with France," and the Bank of England should be proud to remember the death of their first Deputy-Governor, Michael Godfrey, who went over to Namur to arrange with the King as to the payment of the troops and was killed by his side by a cannon shot at the siege of that city.

McLeod, in his "Theory and Practice of Banking," says : "The immense profit which accrued to the State by the establishment of the Bank was shown by the increased vigour with which the war was carried on."

And so if we trace the history of banking we shall find that its main end was the security of England in war. The struggle being of life and death everything was subordinated to that end. In 1798 the loans advanced by Pitt to Austria drained the country of money and produced a crisis. The Bank had to suspend payment, but the Government came to the rescue with an issue of paper currency. In this way Bank and State worked together for the security of the nation.

But the Bank drew its power from our merchants, as our merchants drew their power from our manufacturers, and in turn they supported our merchants and our manufacturers. Thus, in 1763 our cloth trade was almost brought to a standstill by a suspension of payments in Antwerp and Amsterdam, and the Bank of England came to the rescue of the merchants with advances for about a million—a great sum in those days. But in the crisis of 1793, which was produced by over-trading with France after the Eden treaty and before the declaration of war, the Bank failed the merchants. Fearing for its reserves it contracted its issues and Parliament had to come to the support of our commerce.

Thus we see the action and inter-action,

the working and inter-working, of a national system. The wars with France were wars of commerce. They were a conflict between two industrial systems. In this conflict the energy of the British economic system was stored in the banks to be used by the Government. Our armies and our navies were the steel point of our industries.

## CHAPTER III

### A POLICY OF WEALTH

*Rise of New German Economic System.*—We have now traced in their main lines the foundations and the growth of the British system. First it was laid upon the bed rock of production and shaped by a continual struggle with rival systems. In early times England was the “wool farm of the Hansa.” The cloth industry was founded upon English wool and grew from stage to stage under the enmity of Flanders and of Lombardy. English commerce was founded upon English cloth and organised itself upon a national basis to fight the older commerce of the Hansa League and of Italy. The Hansa towns invoked the aid first of the Emperor and then of the King of Spain. The Spanish Armada was in the main built and equipped by the cities of Germany and Italy. The struggle ended in the total defeat of the Imperial system. The Netherlands organised themselves for trade



upon an obscure corner of the old Empire. The conflict between Holland and England was a conflict between English and Dutch shipping and between the English and Dutch East Indian trades. In this conflict the system founded upon trade and sea carriage went down before the system founded upon production and industry. France, imitating England, founded herself upon industry and production, and in the long and doubtful conflict which followed England at last won by virtue of the superior power of her economic system. England emerged to world supremacy after the defeat of Napoleon.

In this long series of struggles every part of the economic system bore its share. Production secured industry, industry supported commerce, commerce, banking and shipping supplied power, energy and mobility, and the State put in action the sum of the national strength.

It follows that wars are not campaigns merely of fleets and of armies but the struggles of economic systems. In these struggles the instinct of survival, the desire for security, is the ruling principle.

When England was at last supreme this principle was forgotten in the completeness of her victory. A new school of economics

arose whose interest was not the security of the State but the happiness or the wealth of the individual.

In their systems the State was almost ignored or was treated as an organisation for eleemosynary purposes.

In the same way the great organisations which had been founded to support the national trade and industry in these conflicts with rival systems, either disappeared altogether or became charitable institutions. The Mercers and the Merchant Adventurers, which had at one time supported the cause of English weaving against the weaving industries of Flanders and Holland, turned their resources to the establishment of schools.

Our commerce and our industries, our banking and our shipping, turned from the conflict for national existence to the pursuit of wealth. Organisations broke up into individuals. And in this disorganisation born of security which we call individualism the scattered and broken States of the old German Empire found their opportunity. They set themselves, while we wandered freely over the earth our fathers had conquered, to create the New German Empire on the ruins of the old.

The history of the new German economic system is like our own, the history of a struggle

for survival. As in the Middle Ages the British economic system grew to power in conflict with the Hanseatic system, so in the nineteenth century the German economic system grew to power in conflict with the British system.

As in the Middle Ages, England copied and improved the organisation of the German system, so in the nineteenth century Germany copied and improved upon the British system.

As at first England was a producer of raw material for the German system, so modern Germany began as a producer of raw material for the British system.

And as England was under the control of the Hanseatic League when she was the wool farm of the Hansa, so modern Germany was dominated by Great Britain while she served the needs of British industry.

In the eighteenth century Germany was the serf of England and France. Hamburg was a port of entry for British manufactures ; Hanover was the " bridge-head of England " ; and Prussia, Brunswick and Hanover fought with money and weapons provided by England to support British policy. In the same way the German states of the Rhine Confederation were the economic and political vassals of France.

Frederick the Great had sought to give Prussia industries by seizing Silesia and to give Prussia shipping by seizing Dantzic ; but his system was killed in its infancy by Napoleon. Stein, the Prussian statesman who had sought refuge in England, supported the British policy of a free market in Germany for British manufactures.

In 1817 Frederick William the Third decreed that the free import of foreign manufactures should be the basis of the legislation of the Prussian State "for all future time."

Prussia lived at that time upon the export of her corn to England and upon English loans.

William Jacob, who was sent to Germany by the British Government in 1819 and again in 1826, notes the desperate poverty of the country, and the inferiority not only of Prussian manufactures but of Prussian agriculture : "everything inferior to ours," "the deadness of all business," iron smelted with charcoal, the absence of steam power.

"The extent of Prussia," he says, "is greater than that of great Britain, its population only one-sixth less, and yet the surplus productions are not more than one-twentieth of ours and probably the domestic consumption of the various commodities produced from the soil and the labour of men does not

amount to more than one-third of what is consumed in this island.\*

And again in his report on the trade in foreign corn of 1826 Jacob describes the Prussian peasantry as listless and slovenly. The implements of their husbandry were as poor as their working cattle; their ploughs were made chiefly of wood with very little iron; the use of rollers was unknown and the clods were broken with wooden mallets. There was little other capital than that of the land which had vastly depreciated in value. Four-fifths of the inhabitants subsisted by producing food, and as they depended for all their conveniences on the price which they could get for their surplus corn, the rate at which that surplus could be disposed of governed their existence. The working classes could not be compared to any class of persons in England. They lived in miserable dwellings, on the lowest and coarsest food,

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\* German labour was then, and for many years afterwards, inferior in all respects to British labour. The German economist, Brentano, in his "Relation of Hours and Wages to Production" (first published in 1875), makes this admission: "The German operative's efficiency in production is inferior to that of the Englishman to a degree corresponding to his inferior conditions of labour." The quality and status of labour rises or falls according as the industry of which it is a part rises or falls in the economic struggle.

many of them eating only potatoes and rye. An earthen pot was the most valuable article of their furniture and they wore coarse homespun wool or linen as long as their garments could hold together. There were a few manufactories encouraged by the Government, the chief of them being the making of a coarse blue cloth which was finished in Berlin and was "calculated for negro clothing."

It was the policy of England to keep Prussia an agricultural State, both that it might produce cheap corn and remain a free market for British manufactures.

It was also British policy to keep the various States of Germany from uniting together. As there were no less than 39 States, each with its own Customs, no single system could gain strength enough to make headway against British manufacturing power.

The National Party in Germany sought to unite and protect, and British policy in Germany sought to keep apart and to maintain Free Trade.

Prussia defeated British policy. She kept England friendly by supporting Free Trade until she had secured German unity; she then abandoned Free Trade and adopted Protection.

In this conflict the British Government

abandoned British agriculture and British shipping as a bribe to Prussia and to the United States—a policy which invited and deserved defeat.

*Surrender of English Navigation Laws.*—Let us first see how in this conflict England surrendered one part of her security, her Navigation Laws, which protected her shipping and her seamen.

If we were to trace the history of these Navigation Laws we should find that they had their origin in the struggle with Germany on the sea. The Hanseatic Navigation Law was “Hanse goods on Hanse ships.”

This law was made English by Richard II. in 1381\*; but he had not the strength to enforce it. We may suppose that it was directed against the Hanseatic League, for Richard afterwards declared war upon that power with a pitifully small fleet of three ships. The war ended disastrously for Richard and for England.

The law, however, continued to be the policy on which our Merchant Adventurers

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\* “That for increasing the shipping of England of late much diminished none of the King’s subjects shall hereafter ship any kind of merchandise, either outward or homeward, but only on ships of the King’s subjects, on forfeiture of ships and merchandise, in which ships also the great part of the crews shall be the King’s subjects.”

acted and was enforced with rigour both by Queen Elizabeth and Cromwell. By the time of Cromwell the Dutch, following a traders' policy, had made themselves the sea-carriers of the world ; but Cromwell used the Navigation Laws to protect English shipping and forced the Dutch into war. As the Dutch had five Boards of Admiralty and " could not spare ships from their traffic " they were heavily defeated, and England took over the greater part of their carrying trade. France, which followed England in navigation policy, secured by her Navigation Laws and her industrial policy another large slice of the Dutch sea-carriage. In the war which followed the Navigation Laws were thought even by Adam Smith to be an important part of our defence.

British policy in shipping was fourfold : it gave a preference to home and Canadian over foreign timber in order to secure our ship-building ; it limited the right of importing the production of foreign countries either to ships of the producing country or to British ships ; it protected British seamen by the provision that the masters and the greater part of the crew must be British born ; and it provided also that British ships must be owned by British owners.



The United States made the first breach in this system. In 1787 Congress imposed equivalent taxes upon British ships and British cargoes ; England ended a long struggle with the Reciprocity Treaty of 1815, and thus secured for a time the American market for her manufactures.

In 1820 England again modified her Navigation Laws by allowing the importation of certain enumerated articles in ships of any country into which they had been imported. This change was made in order that England might follow a trading policy and become—as she did become—a place of entrepot for all foreign commodities.

In 1822 the British Consul at Dantzic (Gibson) reported that the Prussian Government had raised the charges on British ships, and had made reciprocal arrangements with Holland, Denmark and America. Not only were the harbour dues to be raised on British vessels, but the coasting trade was to be confined to Prussian vessels.

Our Vice-Consul at Königsberg (Tuke) and our Vice-Consul at Memel (Fowler), reported to the same effect. They suggested that British trade, then supreme in those parts, would be driven out if the new laws were enforced.

Huskisson, then President of the Board of Trade, expostulated with the Prussian Minister, but the Prussian Minister replied that his Government was only following the example of England, and they meant to go further : so far they had only imitated England in her port and tonnage duties, " but it is the intention of my Government to imitate you still more closely by imposing discriminating duties on goods imported by your ships."

Mr. Huskisson immediately entered into " amicable negotiations " with the Prussian Government, with the result that all discriminatory duties on ships and goods were abolished on both sides.

Mr. Huskisson gave a full account of the surrender to the House of Commons on 12th May, 1826. He admitted that the Navigation Laws were " founded on the first and paramount law of every State—the highest ground of political necessity—the necessity to provide for our own safety and defence."

He also laid down the principle that : " wherever the interests of commerce and navigation cannot be reconciled, the interests of commerce ought to give way and those of navigation have the preference."

That is to say, he paid lip-worship to our ancient National Policy of Security.

But it was lip-worship only. If they were to enter into a conflict with all the commercial powers of Europe, "would this country have the firmness and fortitude necessary to go through with it?"

Moreover, "when England began her Navigation Laws she was a poor country," whereas "she had now become the great seat of manufactures, and trading wealth, frequently importing and never exporting corn, drawing raw materials from and sending manufactured goods to all parts of the world." Would it be wise to enter into a conflict with "poor unmanufacturing countries?" "It may possibly be a wise policy to divert countries from that system (manufactures) rather than to goad them on, or even leave them a pretext for going into it."

We took from Prussia timber, hemp, pitch, tar, occasionally corn and other raw materials, and we exported cottons and woollens. We must try to maintain that system.

Further, we were secure in the largest mercantile marine in the world, so that there was nothing to fear. He had been in logic driven to extend the agreement to Denmark and Sweden. Moreover, "I should have

been ashamed of the councils of this country if we had hesitated to enter into a similar agreement with the free Hanseatic towns of Hamburg, Bremen, and Lübeck." He paid a passing tribute to the part played by these "little communities" in the "feudal ages," in evident ignorance of the fact that "in former times a few Hanse towns had England under their thumb."

And he proceeded also to misread the future :

"If we look at the present question, as connected with our maritime struggle, I contend that there can be little or no danger from the arrangements which I have now described. . . . The States to which these arrangements extend, from their situation, and from many other circumstances, which it is not necessary for me to mention, never can become formidable as maritime powers ; they never can dispute with us the ascendancy on the ocean, nor have they an interest in assisting others to obtain that ascendancy. Their commercial interests and regard to their own security must alike incline them to our side."

The shipping community protested ; but Huskisson carried his point. The Treaty was signed in April, 1824, and two years later

it was extended to Prussian trade with our Colonies. The interests of trade triumphed over the interests of shipping. According to Treitschke, the English exports to Prussia at that time amounted to £7,000,000 while Prussia exported to England barely half that amount.

“For the first time,” says Treitschke, “since the re-establishment of world peace, an effective blow had been delivered upon the bulwark of British rule of the seas.”

*New Beginning of German Sea-Power.*—By 1839, according to Clouston, in his “Letters from Germany,” Prussia’s ships had become, or were now becoming, the carriers of nearly all her bulky produce to British shores. He even feared for our naval supremacy as a result of the growth of Prussian shipbuilding.

In judging Huskisson it is fair to remember that England then possessed an easy supremacy in power and in commerce over the rest of the world; that her security was so complete as to give the impression of a natural order of things; that Prussia was contemptible in manufactures and in shipping; and that the practical problem before British statesmen was the payment of the debts incurred in the Napoleonic wars.

There is some evidence that even at this

time the Germans were already working for naval supremacy—that naval supremacy which they had possessed in the far-off days of the Hanseatic League. There were two main obstacles, Denmark which divided the German North Sea from the German Baltic, and Hamburg, which remained resolutely outside the Zollverein.

In the reign of Queen Elizabeth the port of Hamburg had deserted the Hanseatic League, being bribed thereto by the monopoly of the English cloth trade which she secured by separate negotiation with our Merchant Adventurers. From that time on she had flourished as the great North European depot of British manufactures. Napoleon, as one of his three great plans for the destruction of England, conquered Prussia and overran Hanover in order to secure Hamburg. Our Merchant Adventurers thereupon removed the seat of their trade to the Island of Heligoland, taken for that purpose from Denmark, on which island base they organised a great centre of contraband. When Napoleon was defeated Hamburg again became the bridgehead of British manufactures. Dr. Soetveer, in his "Commerce of Hamburg," boasted that Hamburg granted every facility to the free exercise of trade "so that it may

now with perfect right claim the appellation of a great free port in which free competition was impeded by no differential duties." The manifold advantages of this system to all Germany, Dr. Soetveer remarks, are frequently misapprehended and seldom impartially estimated. As a matter of fact the import duty on British manufactures was only one half per cent. Hamburg thereby had obtained a supremacy in German commerce and had a considerable shipping of her own. The problem for Prussian statesmanship was to link the Baltic and the German North Sea and to force Hamburg within the Zollverein. A means of reaching both ends was the German claim to the Danish provinces of Holstein and Schleswig.

The author of *Unsre Gegenwart und Zukunft* (Our Present and Future), which was published in Leipzig in 1846, makes the German plan clear. "Germany," he wrote, "is impeded in its efficiency by the want of sufficient harbours of war (Kriegshafen) in the North and the Baltic Seas, and particularly by the obstacles in the way of communication between the two seas occasioned by the divided Scandinavian kingdoms or by the power which controls them." The North and Baltic Seas, he pointed out, belonged in an especial

manner to Germany and Scandinavia in common. United, he said, these two nations might readily erect the first naval power in Europe, therefore the Schleswig-Holstein problem must be "settled in accordance with German views." "When the crisis arrives," said this Pan-German of the forties, "all will act with decision."

Again the *Allgemeine Zeitung* of the 23rd September, 1846, urged the separation of the Duchies from Denmark under a sovereign German prince of the collateral line. Thereby, this paper hoped, they would become members of the Zollverein, and as a consequence Germany would secure the two important ports of Altona and Kiel on the Elbe and the Baltic respectively, together with the navigation of the Eider connecting the Baltic and the North Seas.

It was plain that if this took place such powerful competition could be brought to bear upon Hamburg that she would be forced into the Zollverein, and not only Hamburg but the northern States of Hanover and Brunswick would be forced into the Zollverein with Hamburg.

Another part of the German plan was the treaty with Belgium of 1844. By this treaty Antwerp became in practice a port of the



Zollverein, "a suburb of Cologne." Antwerp was given preference over Hamburg in the German trade, another means of forcing the Hanseatic port into the Zollverein. Hamburg, as an English pamphleteer put it, was to be confined as in a net.\*

Now it has to be noted that the treaty of trade and navigation between England and the Zollverein and also the treaty which England had with the Northern States outside the Zollverein ended in 1848. Prussia gave notice that she could not renew her treaty on the same terms. She thus held over the head of England the threat of closing German markets to British manufactures and before the British nose the bribe of opening them to British manufactures.

By such and other means England was persuaded to look on while Denmark was attacked and defeated, the Duchies seized and the means given to Prussia to force Hamburg, Bremen and the Northern States into the German Zollverein. It was a bold and successful stroke of statecraft which

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\* "Germany Unmasked," London, 1848. This very able pamphlet, from which I have gathered much of my information on this subject, was written as a reply to Chevalier Bunsen, the Prussian Minister in London, who had undertaken the defence of the German attack on Denmark.

threatened to give Prussia the mastery of the seas. British statesmen who had conceded the Navigation Laws permitted also the destruction of British influence and power in Northern Europe.

But British industry averted the consequences of British statesmanship.

The Baltic, as we have seen, had the advantage of producing all the materials for the building and furnishing of wooden sailing ships. Timber, resin, pitch, turpentine, hemp, and flax, all were produced in the Baltic, and gave to the Prussian Baltic ports a great advantage over England. But England had her raw materials of coal and iron. Symington, Boulton, Watt, and Bell worked out the problems of marine engines. By 1812 Bell's Comet was running between Glasgow and Greenock, and by 1822 the first iron steamship was steaming between London and Paris. Before the middle of the century iron ships were crossing the Atlantic, and Brunel was building iron steamers with screw propellers. These inventions left Prussia far behind: Huskisson's policy only gave her a tantalising glimpse of that mastery of the seas which had belonged to the merchants of the old German Empire.

In 1850 our Navigation Act was more

completely swept away, our shipping industry no doubt feeling itself once more secure in a development which outwitted the Prussian. Yet Germany also had her coal and iron, and the Hamburgers, long condemned to coasting traffic, lifted their eyes to the "limitless horizon of long-distance shipping."\*

*Surrender of English Agriculture.*—By 1819 a party of manufacturers and merchants had bound themselves together in the German Commercial and Industrial Association of which Friedrich List was secretary, with the object of supporting a German economic policy based on German economic interests and a free market for Germans within Germany.

And Mr. Jacob notes that "of late attempts had commenced on a large scale and projects were in agitation . . . for making wool and cotton in manufactories where the aid of machinery was to be applied." Mr. Jacob suspected that these projects were not supported by Prussian capital, but were rather "the creation" of the Prussian Government.

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\* Henri Hauser, "Germany's Commercial Grip on the World": "The abolition of the Navigation Act in 1850 and the French legislation of 1867 reopened to the Hamburgers the limitless horizon of long distance shipping."

He quotes also a report from Mr. Alexander Gibson, our Consul at Dantzig, dated 17th August, 1825, drawing the attention of our Government to the low rate of wages and of living in Prussia. "The machinery and capital of England," he went on, "may at present balance the advantages of cheaper food and thus a cheaper labour, but will it always remain so? Would it not be more beneficial to England as a mercantile country to induce agricultural nations to remain so as long as possible and not force them to become manufacturers?"

Mr. Jacob was only a little disturbed by these rumours and tendencies. German agriculture and British influence worked together. The Landschaft of Prussia was urging the King "in very melancholy strains" to "take measures of a decided nature respecting the introduction of British goods" in order to induce the British Government to "make some alteration in the corn laws."

And on the 26th November, 1825, the *Correspondent*, a Hamburg paper in the English interest, announced that: "With regard to the prayer for the intercession with the English Government to repeal the Corn Bill, his Majesty expressed a hope that to improve the intercourse between the two

nations, a change will take place in the English Corn Law."

We shall not attempt to follow every step of this conflict. By 1834 a Zollverein was formed which included seventeen States with a population of thirty-three millions. "Great Britain," says Ashley, "was fully alive to the danger which threatened her position in the German market, and attempted to check the formation of a great German customs area by treaties with various small German States. The treaty completed with the free city of Frankfurt did for some time prevent that city from joining the Zollverein."

We do not know how far England had a hand in the Steuerverein, formed by Hanover, Oldenburg and Brunswick in 1834 on a low tariff basis. Treitschke says that this movement to found a union of the coast States was the work of Grote (who was probably a relative of the German-English bankers of that name), and he adds, "Hanover was not free from subordination to English commercial policy."

If the attempt had succeeded it would have made a barrier between Prussia and South Germany and a landing place for British goods. But it failed.

In 1836 Frankfort, the great depot of

## SIR JOHN BOWRING'S REPORT 87

English manufactures, joined the Zollverein, and the tariff alterations of 1838 had "a stronger protective tendency." In 1840 the British Government sent Sir John Bowring, a disciple of Cobden, to report on the situation. Sir John Bowring reported that the Zollverein was protecting German industries.

Prussia had deceived England. "The avowal of the Prussian Government that it was their intention only to levy a moderate duty of from 10 to 15 per cent. is by no means carried into effect by the rate of the duties levied." Cotton goods had to pay from 30 to 120 per cent.; woollens from 20 to 50 per cent.

As a result, "the shifting of demand from the foreign to the native fabrics is everywhere obvious." The sale of British cotton goods at Frankfort had diminished by one-third in a single year, and British warehouses were being closed in both Frankfort and Berlin.

Sir John Bowring put his faith in the German Free Trade party, the party of Prussian agriculture and the Hanse towns. His counsel was to strengthen the Free Trade party in Germany by admitting German corn into the English market free of duty.

He proposed to check the flow of capital

towards German manufactures by opening the British market to German corn.

We have seen that National Security rests upon Agriculture. But the cotton manufacture, though it adds to the wealth and population of England, and is therefore to be cherished, is not essential to its security. Rather on the contrary, as the raw material of the cotton industry is controlled by a foreign nation, the cotton industry is a source of anxiety and weakness.

Therefore the proposal was in effect to surrender the security of the nation in order to add to its wealth and population.

Yet the proposal was eagerly taken up by our cotton industry, at that time aspiring to the control of our national policy. It might not be just to assert that they foresaw the decay of English agriculture; they could hardly foresee the great development of corn-growing in America, and of American railways and ocean freights. Sir Robert Peel did not anticipate that the price of corn would ever fall below forty-two shillings.

“ We find,” said Richard Cobden, “ that at this moment Prussia is building a wall of tariffs which she has been steadily constructing for years, and which will more effectively than did Napoleon exclude us from the

German market—Prussia—for which we bled and for whose subsidies we are still taxed.”

And again : “ I believe that if you abolish the Corn Laws honestly and adopt Free Trade in its simplicity, there will not be a tariff in Europe that will not be changed in less than five years to follow your example.”

The Prussian Government gave some more twists to the Protectionist screw. In 1843 the duty on snuff and cigars was increased ; in 1844 a duty on pig-iron was imposed and the duties on manufactures of iron increased.

In 1846 the German duties were again raised, and in 1846 England abolished the Corn Laws.

It would be absurd to suggest that the desire to maintain our market in Prussia was the only cause of the abolition of the Corn Laws, but it is certain that it was one of the principal causes. And we followed the same policy also for the same reason in the case of America. Prussia was at that time the main source of cheap foreign corn. Prussia was the leader of the German Zollverein. The German Zollverein included the principal market of British woollens, and a considerable market for British cottons and hardware. The access to the markets of the German Empire for English woollens had been the



mainspring of British policy ever since England had become a manufacturing power. Sir Robert Peel in his speeches on the Bill for the repeal of the Corn Laws quotes Jacob at length on the price and the supply of corn, and it is plain that he refers to Bowring's report, although he does not mention it by name.

Thus Sir Robert Peel says: "When your example could be quoted in favour of restrictions it was quoted largely."

Sir John Bowring says: "Our own restrictions, our own high duties, our own prohibitions were constantly thrown into my path, and were undoubtedly the greatest difficulties with which I had to grapple in the progress of discussion."

Again Sir Robert Peel says: "I fairly avow to you that in making this great reduction upon the import of articles the produce and manufacture of foreign countries I have no guarantee to give you that other foreign countries will immediately follow our example. We have had no communications with any foreign government upon the subject of these reductions . . . but depend upon it your example will ultimately prevail. Austria too shows some disposition

And Sir John Bowring says: "There is in fact only one course to be adopted, unless it is intended that a trade of many millions sterling per annum shall be finally sacrificed. The tariffs of Great Britain must be modified *pari passu* with the tariffs of the Commercial League. Such modifications are so obviously, so essentially, so permanently in the interest of the fifty millions of Britons and Germans whom they would bring

at least to follow other countries in their restrictive policy. Hanover also has taken her own course and I do not despair of the early arrival of the period when your example shall tell on the conduct of other countries and when they shall quote our example of relaxation as a course for their governments in commercial affairs.

more closely and unite more firmly together that . . . I cannot but persuade myself that important changes will be welcomed on both sides."

How far these hopes were justified we shall see in our next chapter.

## CHAPTER IV

### A STRUGGLE OF SYSTEMS

POLITICAL influence is the reflection of economic power. When the British commercial system was supreme in Germany, British political influence was also supreme. When the Corn Laws were abolished the British commercial power was still strong in Germany, and British influence was correspondingly great.

In 1840 Friedrich List charged the British Government with employing "an immense army of correspondents and leader-writers" in Hamburg and Bremen, Leipsig, and Frankfurt, to support the cause of Free Trade in Germany.

"In vain," he said, "did the Germans humble themselves to the position of hewers of wood and drawers of water to the Britons. The latter treated them worse than a subject people. . . . To fill up the measure of their contempt, the doctrine was taught from a hundred chairs, that nations could only

attain to wealth and power by means of universal free trade."

The agents of British manufactures were the agents of British policy. "Many Hamburg merchants," says Treitschke, "did not trouble to conceal that they had no desire for the strengthening of German industry, since they feared that this would mean the sacrifice of the customary English export trade."

In the nineteenth century England supported the German Liberal party because it supported the British Free Trade policy in Germany, just as in the twentieth Germany supported the British Liberal party because it supported the German Free Trade policy in England.

We know that the British Government sent William Jacob and Sir John Bowring to Germany. We do not know who sent John Prince Smith.

Prince Smith was born in London in 1809 and was the son of a governor of British Guiana. He went to Germany in 1830, and for some years employed himself in teaching English and learning German. His *über Handelsfeindseligkeit* was published in Konisberg in 1843. In 1846 he settled in Berlin. He was "the founder, and for a long time the leader, of the German Free Trade party."

"He expounded," says Palgrave, "the doctrines of Adam Smith, Say, and Bastiat, popularised by Cobden and others during the English anti-corn law agitation. Those doctrines he put forward in their most absolute form. . . . He paid no attention to moral considerations or patriotic motives, and held that private profit implies public gain."

"He travelled," says Dawson, "a large part of the country as an apostle of the Free Trade gospel, imparting everywhere some at least of his own enthusiasm and conviction, organising societies, encouraging the establishment of literary sheets in the service of the new faith, and successfully identifying economic with political and Parliamentary Liberalism. Not only so, but like all enthusiasts, he contended for the immediate introduction of unequivocal Free Trade, without half measures or compromise of any kind."

"In the late fifties," says Mr. Ashley, "there was something approaching to a real agitation for Free Trade in Northern Germany. It found its theoretical expression in the writings of Prince Smith, to whose energy and influence was due the foundation of the German Economic Congress, which gathered together after 1858 all the reforming forces."

From 1861 to 1866 Prince Smith represented Stettin in the Prussian House of Representatives. From 1871 to 1873 he sat for the division of Anhalt in the German Reichstag. He died in 1874.

It does not occur to any of these writers to ask themselves why Prince Smith devoted his life to the preaching of Free Trade in Germany.

May we hope that in future time the German economist will record with an equal candour and an equal innocence the lives and activities of certain eminent Germans now naturalised in England, who play an equally disinterested part in our national life?

We get a closer view of this conflict from the "Memoirs" of Sir Robert Morier. The value of this book to us is that Morier was both a member of our diplomatic service in Germany and a member of the Cobden Club. He was inspired by Cobden's policy, and worked with energy and ability to shape Germany to the Free Trade pattern. He proposed an alliance with the Free Trade party in France which had secured great concessions to English policy in the Cobden Treaty of 1860. In a memorandum to Count Benedetti, the French Ambassador at Berlin, written in 1866, he explains how

“international dependence” may be substituted for “national independence,” and eternal peace and disarmament secured by means of Free Trade.\*

British influence was still strong in the Court of Prussia, and Morier made himself the friend and adviser of the Crown Prince and Princess. He even secured for their son, afterwards the Emperor William, a tutor named Hüntzpeter, who was an eccentric pedagogue, but a sound Free Trader. We are not surprised that in this crusade Morier drew upon himself the hatred of Bismarck.

Bismarck, it appears, attempted to get rid of Morier by denouncing him to the British Government as an anti-German agitator. This direct attack failing, Bismarck took another line. He became a Free Trader himself.

The German Liberal party, as we have seen, had been skilfully shepherded by Prince Smith into the Free Trade fold. Bismarck required the support of the German Liberal

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\* It is one of the fallacies of our classical school of political economy that Free Trade makes for peace. Tariffs are part of the defences of a country and to abolish a nation's defences does not procure peace: it invites attack. As human nature is, the weakness of one nation is hardly less a provocation of war than the strength of another.

party for the work of unifying Germany. He also required the neutrality of France and of England during his wars with Denmark and Austria. He therefore concluded a commercial treaty with France and followed a low tariff policy in Germany.

Bismarck, says Schäffle, was at that time (in the sixties) "at once the political guardian and the political favourite of the Free Trade party."

Bismarck carried things so far that in February, 1870, the Cobden Club actually proposed to make him a member, and would have done so had not Morier threatened to resign if Bismarck were elected. Morier was disarmed but not altogether deceived by these tactics.

"I am totally at a loss to understand," he wrote to Mallet, "on what principle of 'unnatural selection' you propose to elect Bismarck, of all God's creatures under the sun, a member of the Cobden Club. . . . When our great-grandchildren have to get up the history of the nineteenth century, they will to a certainty find Cobden labelled as the representative of the one doctrine—exchange of cotton goods and Christian love internationalism—and Bismarck as the representative of the opposite doctrine—exchange



of hard knocks and blood and iron nationalism."

A rude awakening came with the Franco-Prussian War. Morier saw to his horror the whole fabric of German Liberalism swept away in a single night. His cheek was scorched by a sudden and terrible blast of German hatred of England. He set it down to our manufacturers who were selling arms to the French.

In vain he tried to assuage the feeling.

"I have pointed out," he wrote, "that in a country in which Free Trade had become a cardinal point of the national faith it was next to impossible for the executive to tamper with the unfettered circulation of commodities. I have urged that the British manufacturer had no political sympathies, and that his object was to make a profit on his merchandise, and that he was ready with perfect impartiality to sell his engines of destruction alike to German and to Frenchmen."

He was shocked to hear from Dr. Faucher, the Prussian Free Trader, with whom Morier, since Vienna days, had kept up relations, that Alsace and Lorraine were to be annexed, and that Faucher was delighted at the prospect.

His account of the attitude of the Cobden Club and the British Government adds to the picture of surprise and confusion :

“ In the meantime, the Ministry is going about asking here and there what public opinion wishes. I heard how Gladstone went about on the steamer of the Cobden Club, collecting opinions from individual members like a monkey asking for ha’pence, asking this one if he really believed England would be ready to go to war, that one whether he considered England’s honour engaged in Belgium, etc., etc.”

Morier pours out his despairing soul to Stockmar, the son of that Baron Stockmar who had helped to govern England from behind the chair of the Prince Consort. Stockmar had rebuked him for his hatred of Bismarck, and our British diplomatist thus defends himself :

“ My *cultus* of Germany and everything German, and the idealism which I have thrown into it have been the *raison d’être* of my existence during the last twenty years. I don’t regret it, as to this *cultus* I owe, after all, the best bits of my life, your father’s friendship and the intercourse and sympathy of the very few friends I have succeeded in making. But that this idealism has, on the

other hand, brought very many bitter disappointments with it cannot be denied." And again: "It may seem strange to you that I should be glad to leave Germany. . . . My joy, however, is mixed with no little bitterness. I have worked hard and conscientiously at an idea for the last fifteen, I might almost say twenty years. It was the political and heart union of England and Germany. . . . I must make up my mind to go to my grave a useless fool who never succeeded in learning the rudimentary principle of his craft, that of lying for the good of his country."

We need dwell no further upon this painful picture of an Englishman calling upon his German friends to pity him as he sits among the potsherds of internationalism. But it is necessary to tell the end of this sad story. Morier returned to England to find England either indifferent or anti-German and pro-French. It was the awakening sense of the national danger; but it made Morier feel more than ever an exile. He was an exile in both countries, for Bismarck would never allow him to return to Germany.

But let us come at once to the sequel. Prussia was now secure: the Imperial Crown was on the brows of a Hohenzollern, and the

Empire of Germany was supreme in Europe. The German political system was for the first time in a position to protect the German economic system.

German industries were still weak. British manufacturers were dumping their goods on the German market. In 1873 the German Economic Union was founded, and petitioned Bismarck to revise the conventional tariff. Bismarck replied that he meant to return to the old Prussian policy of Protection.

The German manufacturers had been hostile to agriculture. He proposed that they should unite their interests. A general system of protective duties, he said, would avoid such jealousy, as it would give the entire home production preference over foreign production on the home market, without any expense whatever. The entire country would profit by the increased prosperity, and the import duty would either be partly or entirely paid by the foreigner. "The clear proof of this is the concern and discomfort of foreign countries which is shown against all import duties on any articles they want to import into Germany."

Then they must arrange new commercial treaties with foreign countries, and "in order to carry out these negotiations in a manner

favourable to Germany it is necessary to complete the new tariff of import duties, considering only our own wants and protecting the entire home production from the competition of the foreign manufacturer."

Such was the reply of the Chancellor to the manufacturers, and when the Reichstag opened, the Emperor William proclaimed the new policy to the German people. "I consider it my duty," said the Emperor, "to reclaim the German markets for our home production, so far as it is possible and consistent with our general interests."

The Free Trade opposition was swept away by the national enthusiasm. When the Free Traders charged Bismarck with inconsistency, he replied that he had changed his mind for the good of his country, and he explained also the political ends of his economic policy. His Free Trade Treaty with France was to keep France quiet when he attacked Denmark; and, again, when he attacked Austria, "The restraints of France," he said, "would certainly not have continued as far as the point which, happily for us, it reached if I had not cultivated relationships with her in every way open to me."

Then he turned to England. Poor Germany, he said, must be no longer the

dumping ground for the production of foreign countries. "Let us close our doors, let us put up our fence a little higher. Even the great mighty England which, after strengthening his muscles by Protection, had stepped forward and said, 'Who will take up with me? I am ready for anyone,' even he would soon have to return to Protection to secure for himself the English market."

## CHAPTER V

### LESSONS OF THE STRUGGLE

*Factors in the Growth of German Power.*—We may gather even from this brief history certain lessons of importance to our subject.

We saw at first the British industrial system overshadowing Germany. The industries of Silesia and Saxony maintained themselves by their remoteness from the sea, their native supply of raw material, and the support of the State ; but they supplied only a small part of the German market, and no part of the world market, where the British system reigned supreme. The German sea-ports and the German carrying trade and the German raw materials were in British hands. German industry was choked and stifled by the vigorous outgrowth of branch and leaf which overarched the North Sea and threw its shade over German soil.

Even the growth of German corn was governed by England, for England only

opened her gates to Prussian wheat when her own agriculture could not supply her needs, and Prussian agriculture was depressed or prosperous according as the English sliding scale was raised or lowered.

And so with the raw materials of shipping. The Prussian supply was in British hands. British State policy protected its own forests of Canada, and Prussia was only permitted to supply what these forests could not afford.

We saw that the Prussian State based its policy upon its raw materials. It worked, no doubt in concert with the United States, to force open the British market for its corn, and to break down the British Navigation Laws, and so clear a space on which Prussian shipping and shipbuilding could grow. To secure these ends the State cunningly used its power of toll on British goods.

But this power of toll had first to be strengthened, extended, and unified into the German Zollverein before it could be used effectively to protect German industries. At the beginning of our period there were no less than thirty-nine separate customs systems; the German soil was so divided up that the German tree could not grow. The area had first to be cleared and fenced, and this work had to be done gradually and



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by stealth, because of the latent hostility of foreign systems.

The fact that the Prussian State did this work without being attacked by the British State disguises, but does not refute, my postulate that the history of national economic systems is the history of a struggle for existence. Prussia contrived by statecraft to disarm the hostility of England until she had destroyed the minor rivalries of Denmark, Austria, and France. England endeavoured to stop the growth both of the German Zollverein and German industry, not by blows nor by organisation, but by the weaker weapons of concession and propaganda.

The wars undertaken by Prussia were a part nevertheless of this struggle. The war with Denmark weakened England and strengthened Germany in the North Sea and the Baltic. The war with Austria secured for Prussia a union with the Southern German States. This union added greatly to the strength of the German system and weakened the British system in proportion. The union between the North and South of Germany had always been opposed for this reason by British diplomacy. It secured for the German system control over the direct commercial road to Austria, and cut off Austria from

England except by a circuitous route. Bavaria, Frankfort, and the Rhine States uniting with Prussia in manifold ways complemented and strengthened the German economic system.

Lastly, the war with France doubled the strength of the German industrial system. In 1868 Germany had 3,000,000 cotton spindles and 37,000 weaving looms. In Alsace-Lorraine there were 2,131,000 cotton spindles and 48,536 looms. Not only so, but Germany by that war gained control of the Minette iron-fields, the largest of their type in the world.

In this period between 1815 and 1879 three industrial systems, the Silesian, the Saxon, and the Westphalian were consolidated into one, and given a common market protected against foreign systems. These economic powers were consolidated by political and military power in the process of a struggle which ended victoriously in the protective tariff of 1879.

How far was this policy the policy of the Prussian State and how far was it the policy of the German industries? It is a difficult question. We gather that the Prussian State was at various times dominated by British influence, and that the German industries

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united to oppose that influence. This is suggested by Jacob and by Bowring and is openly stated by List.

List was himself the secretary of a League of South German industrialists who combined together in order to agitate for the protection of their industries. Bowring remarks that "the Commercial League is in fact the representative of a sentiment widely, if not universally, spread in Germany—that of national unity."

*Value of Organisation.*—Again, we have seen that Bismarck announced his change of policy from Free Trade to Protection not to the Reichstag but to the Economic Union. This Economic Union was a strong organisation of German manufacturers founded to secure revision of the conventional tariff. It was a continuation of the movement which Jacob had seen in its infancy and List had led in its youth. Just as our Merchant Adventurers organised themselves to fight the Hanseatic League, so these Germans organised themselves to fight British commerce. And in both cases the organisation worked to get its government upon its side.

"If only," Bismarck exclaimed to Busch, "the manufacturers would not isolate themselves and split up into fractions, and cut

themselves off from the agricultural classes : They would like to negotiate respecting individual items, the iron tariff and so forth—every one for himself. But that will not work. They must hold together.”\*

Thus the Germans in the struggle against England learned the lesson of organisation just as we had learnt it in our struggle with them four hundred years before.

By October, 1879, so well had they learnt this lesson, 204 members (i.e. a majority) of the Reichstag signed a tariff reform resolution.

Here then we see the worth of organisation.

And we also see the worth of unity between interests.

The State of Prussia was much under the influence of agriculture which, over many years, had no higher policy than to secure its place in the British market.

The place was probably secured upon an implied but not explicit understanding that Prussia would keep the German market open for British manufactures. In the tariff controversy of 1845 the German industrialists accused the Prussian Government of being under the influence of England, and the German manufacturers petitioned not only against

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\* Ashley, “Modern Tariff History,” p. 58.

the import of British manufactures but against the export of German grain.

There was thus a division between the two great interests: Agriculture on the one side and Manufactures on the other.

As time went on, however, owing to the growth of ocean and rail transport both Russian and American grain invaded the German market.

Bismarck used this circumstance to reconcile agriculture and the other industries, and the two great interests were united in the 1879 tariff. Thus the German economic system was founded upon a union of all the producing interests of the State. The British system, on the contrary, was founded upon a victory of cotton over corn.

The Germans in their economic system worked for strength: the British for wealth.

*The Weakness of Concession.*—Here we went clean contrary to the policy we had followed in our struggles with the Hanscatic League, with Holland and with France.

In our struggle to maintain the German market we abandoned national security, both in the Navigation Laws which secured our shipping and the Corn Laws which secured our food.

In the Navigation Laws the Americans

made the breach which the Germans entered ; in the Corn Laws the Germans made the breach which the Americans entered. In shipping the position was saved by the building of iron ships, which gave us a fresh start over the German system, but we shall see this advantage disappearing in the course of our story.

In corn North and South America poured in through the breach, and our agricultural system, which in the eighteenth and early nineteenth centuries had led the world, fell back under the sod.

In corn and shipping we exchanged the principle of security for the principle of cheapness.

If this nation is to be secure it must either grow its own food, or control the production and command the means to carry food. In both respects our security was abandoned in this conflict with Germany.

We were like a man who should give to his enemy one weapon after another in order to make him a friend.

The Corn and the Navigation Laws were only two out of many weapons given up in the course of this conflict. We abandoned, in fact, the whole armoury of our protective system. We abandoned also our

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Naturalisation Laws which had protected the breed and blood of the Nation itself.

We abandoned the Colonial system which secured by mutual preference our main supplies of raw material. "Only by Free Trade," said Cobden, "can we get rid of our Colonies."

When we were loosening our organisation and weakening our security in the desire for gain the Germans were adding to their strength in the belief that wealth might be secured by dominion.

There were two ways in which England might have met the growth of the German Empire, (1) by siding with the weaker Powers—Denmark, Austria, France, as they were attacked; and (2) by maintaining and increasing her own security.

As we followed neither policy but took an opposite course, British power weakened as German power increased. In 1815 Prussia, Hanover and the Hanse towns were mere feudatories and vassals of England: but by 1879 the Prussian system was strongly established. "It is a favourite saying of Prince Bismarck's," says Morier at the end of this period, "that he lost five years of his political life by the foolish belief that England was still a great Power." And Morier saw

so clearly the result of our policy that he exclaimed (to Stockmar) in 1873 :

“ We have altogether lost our sense of international existence and I fear it will never come back unless we can have some great national misfortune and disgrace, which I heartily pray may come when we have sufficient strength of reaction left in us.”

And again to Jowett in the same year :  
“ England can maintain her Empire if she *wills* to do it ; but unless she wills it with all her heart and soul, she will find it difficult to keep even the Isle of Wight.”

At the beginning of this period the Prussian State hardly dared to protect even its own industries ; at the end she threw a wall round all Germany, and made of her one great protected area within which a powerful economic organisation could grow.



## CHAPTER VI

### THE GERMAN SYSTEM

*Agriculture.*—Agriculture is the foundation of national strength, the unregarded base or groundwork of the economic system. When William Jacob went to Germany British agriculture was superior to German agriculture. The English farmer was then the best in the world.

The German farmer was at that time considered apathetic and ignorant: the British farmer progressive and enterprising. By the end of the century these reputations were reversed: the British farmer was blamed for his apathy: the German farmer praised for his enterprise.

The exchange was not in the nature of the men but in the position of their industry. Enterprise or apathy is not the cause but the result of the rise or decline of an economic system. Security is the foundation of enterprise. When war broke out and the destruction of shipping gave the British farmer

security, his enterprise and energy surprised all who had not considered the economic causes of these qualities. In 1820 German agriculture lived precariously upon the margin between the British harvest and the British need for corn. If the British farmer could supply that need, the British market was closed to German corn; if the British supply fell short the British market was opened to German corn.

Prussia and the United States working together forced open the British market, and when they had organised their transport, the United States laid waste British agriculture. The statistics of British corn production speak more eloquently than words:

|      |    |    |    | Acreage under Wheat.<br>United Kingdom. |
|------|----|----|----|---|
| 1868 | .. | .. | .. | 3,951,000 acres                         |
| 1883 | .. | .. | .. | 2,713,000 „                             |
| 1887 | .. | .. | .. | 2,338,000 „                             |
| 1892 | .. | .. | .. | 2,298,000 „                             |
| 1897 | .. | .. | .. | 1,939,000 „                             |
| 1902 | .. | .. | .. | 1,772,000 „                             |
| 1907 | .. | .. | .. | 1,665,000 „                             |
| 1912 | .. | .. | .. | 1,971,000 „                             |
| 1914 | .. | .. | .. | 1,905,000 „                             |

With this decline in wheat there was also a decline in almost all other agricultural crops. The total acreage under crops and grass fell from 47,974,914 acres in 1886 to 46,763,816 in 1914, that is to say, over a

million acres of land had gone out of agricultural use altogether, whether as tillage or as pasturage.

The Americans might have laid waste German agriculture in the same way, but for the action of the German State.

The German State protected German agriculture, and German agriculture from the secure base of the German Zollverein shared in the spoils of the British market.

The light and sandy plains of Prussia and Brandenburg were made, by the enterprise which blossoms from security, to drip with sweetness like a honeycomb. German agriculture, supported by the State, turned from the export of wheat to the export of sugar.

The German economic system was thereby strengthened as much as the British economic system was weakened.

In the Middle Ages we depended upon Venice for our sugar; in the sixteenth and part of the seventeenth century upon Spain. The wealth and power of the Spanish Empire were supported largely by the monopoly of cane sugar, and it is a Spanish saying that the Quirinal was built of sugar. England determined to have her own supply under her own control. Through the eighteenth century England and France struggled for

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the mastery in the West Indies. France at one time supplied Continental Europe with sugar, but England maintained her own sugar plantations by securing for them the British market against French competition.

In the Napoleonic Wars we secured a monopoly of cane sugar and created a sugar famine in France. Sugar was one of the economic weapons used by Pitt for the defeat of Napoleon, and the French in their desperation turned to the beet-root for a scanty and meagre supply.

The beet-root at first produced only about six per cent. of sugar, and up to the middle of the nineteenth century cane sugar easily held its own. At that time we consumed about 350,000 tons of sugar a year. Of this about 290,000 tons came from British possessions. Of foreign refined sugar we imported about 15,000 tons, of which 13,000 tons were beet-sugar.\* At that time (1853) European beet-sugar amounted to only 14 per cent. of the world's production, and France was the chief grower.

The British sugar plantations were important to British economic power. They were under our control; they employed our

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\* "A Short History of Sugar," 1856-1916, by George Martineau.

shipping and our capital ; the raw sugar was refined in the refineries of London, Bristol and Greenock ; and British machinery was used both for the crushing of the cane and the refining of the sugar. As the whole industry was thus under our control we were secure of this commodity in war.

The British sugar industry was attacked first by the bounty system of France, but after the Franco-German War the German beet-sugar industry took the lead. In 1871 Germany produced 186,000 tons of beet sugar, and France 287,000 tons ; in 1884 France produced 273,000 tons and Germany 1,123,000 tons ; in the year 1912-1913 Germany produced 2,723,000 tons of sugar, and Great Britain imported, in the twelve months ending 31st December, 1913, 472,000 tons of raw and 467,000 tons of refined German sugar.

This great economic victory was won (1) by State protection, and (2) by organisation. The State protected German sugar, and the industry itself, by its cartel system, made war like an organised economic army upon the helpless, disorganised and unprotected British industry.

The victory had two main results : it weakened England and strengthened Germany.

It weakened England not only in the decay

of the twin industries of growing and refining sugar and the related industries of shipping and machinery, but in the loss of economic security. A country which depends on a foreign nation for sugar loses to that extent its economic and therefore its national security. For we have proved that political security rests on economic security.

This economic dependence of England upon Germany was increased by the secondary industries which depended upon German beet sugar. The biscuit and confectionery industries rested upon a raw material which was controlled by a foreign nation and therefore these industries were a source of economic and consequently of national insecurity.

They formed interests in the State which worked against national independence and for dependence upon Germany.

The German beet sugar industry strengthened Germany not only by the profits of the sale of beet sugar, but in other ways. The beet was a rotation crop, and its cultivation increased the yield of the other crops—wheat and rye—grown on the same land by about 25 per cent. As it increased the yield of the land so it increased the prosperity and numbers of those employed on the land. The Prussian armies owe their strength to Prussian

agriculture, which provides both their best leaders and their best men.\*

The beet sugar industry required agricultural, manufacturing and refining machinery and that machinery was supplied by the German engineering industry. It is probable also that in time Germany would have taken over those secondary industries which depended upon German beet sugar, and would have supplied England not only with sugar but with confectionery. For it might almost be called an industrial law that that country which produces the raw material—if it has the power to defend itself—will in the end produce the finished article.

*Banking.*—The Germans learned by war the power of organisation. They used the power of organisation to create economic power. They had this great advantage over the Englishman at that time—that the Englishman worked for the individual and the class, whereas the German worked for the nation and the organisation.

If we compare the material conditions of England and Germany in 1880 we find that

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\* "If we do not support our agriculture, our power of resistance will be ruined in the same measure as our power of supply. The peasant is the backbone of our Army . . . without peasants, no State, no army."—Bismarck: "Conversations."

most of the material advantages were still on the side of England. Germany had little capital ; England was well supplied ; Germany had but few workmen skilled in modern industry ; England had an abundance of expert artisans ; Germany grew her own food and sugar, and had great forests ; she had beds of iron-ore and coal ; and she grew wool in Saxony and Silesia ; but these resources were undeveloped. British agriculture was decaying, but the whole world supplied England with cheap food and the British industrial system was in full blast. Germany had no tropical colonies and no command of tropical products ; England had a great Empire in the tropics, from which she could gather all her industries required ; Germany had no acquaintance with the markets of the world and no ships to carry her goods to those markets ; England was well established in every market and had ships at her command.

There was, however, this difference : Germany had an industrial policy and knew the power of national organisation ; England had no policy save cheapness and the Happiness of the Individual.

At this point a word may be said of what is called National Consciousness. It is not necessary to our purpose to prove that a



nation is conscious of its own policy, or that the German of 1880 saw the war of 1914. Possibly the leaders of German industry remembered that England had once been under the power of Germany ; possibly they worked for a German dominion of the world. Or possibly their eyes did not look so far either backward or forward ; but they worked in accord with the instinct of their race and nation, and that instinct was for growth and power. As they had been given security to grow by three wars and the State organisation expressed in the Tariff law of 1879, so they followed instinctively the methods of combined action which in the struggle for national existence had become the national habit.

We may trace this instinct in the sphere of Banking. Capital is stored economic energy which may be applied either to the development of fresh industrial power or distributed among other nations and for other purposes. The Germans developed a system of banking which strengthened and intensified their national and industrial system : they organised their small capital resources to this end, and as they proceeded they even learned how to tap the British banks and divert the stored energy of British industries into the veins of their own system.

Although our national banking system was organised for our wars with France, we look in vain in the literature of Victorian banking for the national point of view. It should have been obvious that the security of banking rested upon national security, but national security was so much a matter of course by 1870 that it was hardly as much as considered. There is indeed some realisation of the truth in Walter Bagehot's "Lombard Street." He points out for example that a system of deposit banking is only possible in a country exempt from invasion and free from revolution. He remarks on the fact that hardly any country has been till now "exempt for long periods both from revolution and invasion." He suggests that the absence of security from foreign war had prevented both Holland and Germany from developing deposit banking. He notes that after the war of 1870 European reserves went to London, and Paris ceased to be a European settling-house. He congratulates London on becoming thereby the sole great settling-house of exchange transactions in Europe. He remarks that the supremacy of Paris "partly arose from a distribution of political power which was already disturbed." "But," he goes on to say, "that of London depends on

the regular course of commerce which is singularly stable and hard to change."

It will be seen from this passage that whereas Bagehot recognises national security as a factor in continental banking, he puts down the pre-eminence of English banking to the regular course of commerce. Without reason assigned he makes England an exception to the general rule. Yet we have seen from history that English banking no more than continental banking is independent of national security. The probable explanation is that in Bagehot's time the security of England was as much a matter of course as the stability of the planet. It was taken for granted. "Indirectly," says Bagehot, "bankers will be benefited or injured with the country in which they live, but practically, and for the purposes of their daily life, they have no need to think and never do think on theories of currency." As he wrote about 1873 he could not but see the effect of the loss of security on the banking system of France.

Among the bankers of that time the only concern was to maintain the security of English banks. The security of the country on which the security of the English banks rested had ceased to be a consideration. On the 31st September, 1872, the deposits in

London amounted to 120 millions sterling, and on the 31st January, 1873, the whole German Empire had only 8 millions sterling on deposit.

The English banks felt themselves secure in the supremacy of their wealth and did not even trouble to consider their national foundations. They fell into the habit of looking at their system as a thing apart from the national life. Their policy concerned only the security of their own deposits and the safest and most profitable uses of money. It did not occur to them that national security rested upon industrial security and that both were therefore essential to the security of the English banking system. They had become international merchants in gold and in credit. Such was the attitude of the English banker down even to the year 1914, with the result that when war broke out a great part of our English deposits were found to be invested in German trade and industry, and our English bankers had to be rescued from the consequences by the direct action of the State.

The German banker, on the contrary, never forgot that his security rested on the national security, and that the national security rested on industrial security.

The German banker takes an almost military view of his national duty. He uses military terms; he speaks of mobilisation and concentration, and the possibility of war is never out of his mind. For example, Dr. J. Reisser, probably the first authority on German banking and president of the Hansa Bund, writes thus at the beginning of his book, "The Great German Banks": "Banks have also to make timely provision (as far as possible) in times of peace for the eventualities of war. The marshalling of financial forces must correspond to that of military forces, and just as military mobilisation is made possible by careful plans made in times of peace, so, too, the marshalling of financial forces should be facilitated by schemes likewise devised in times of peace. Weaknesses and gaps in the financial mobilisation may be paid for as dearly as mistakes in the tactical deploying of forces. For to both applies what I have said elsewhere, 'It is impossible without severe loss to evolve a battle formation in the face of the enemy.'"

This he says at the beginning of the book, and at the end he says: "In Germany we have special cause for holding our weapons ready."

The banks were in fact the General Staff of the German economic army.

They founded their policy upon German industry. The Darmstädter Bank was founded in 1853 to this end, and was called the Bank for Trade and Industry.

The Deutsche Bank was founded in 1871, and proclaims its policy in its charter : " The object of the Company is the transaction of all sorts of banking business, particularly the fostering and facilitating of commercial relations between Germany, the other European countries, and overseas markets."

The other two great German banks, the Dresdner and the Disconto Gesellschaft, followed the same policy. Their first aim was German industry ; their second, the commerce which rested on that industry.

*Industrial Combination.*—It would be false to say that the German banks created German industry : what they did was to help and guide its development from a domestic to an export industry.

To this end they followed a policy of Organisation and Concentration at home and of Penetration and Exploitation abroad.

It is important to remember that their Penetration and Exploitation abroad depended on their Organisation and Concentration at home.

Let us consider, then, the Industrial policy of the banks before we consider their commercial policy.

“ The cost of production,” says Reisser, “ depends, among other things, on the greatest possible diminution of the cost of operation, which, in industry at least, as a rule, diminishes in proportion to the increasing size of the establishment.”

The German banking policy was therefore to support industrial concentration.

This industrial concentration took several forms. First, single works linked themselves together in cartels. Reisser defines the cartel as an association founded by contract for certain periods of time of independent enterprises, belonging to kindred branches of industry or of branches of industry with nearly identical interests, the individual members of the association retaining their independence but joining for the purpose of regulating production and sale according to common points of view and in the common interest.

In 1879 there were fourteen of these cartels, in 1911 from 550 to 600.

They took several forms. The lowest development consisted of agreements covering selling terms ; a further development cartels

fixing prices ; and the highest development selling cartels or syndicates, an organisation so close to complete unity that only the process of production—and sometimes not even that—was left to members of the syndicate.

If we take the great basic industries of iron and steel we find that the Roheisenverband or Pig-Iron Cartel held a monopoly of pig-iron production throughout the entire German Empire. It controlled '97 per cent. of the production and all the producers save four.

It was closely connected with the Stahlwerksverband, organised in 1904, which had a practical monopoly of the production and distribution of German steel. All the steel works and the rolling mills combined in this syndicate to regulate output, distribution and sale. The members were held together by a double contract, the first governing relations with the selling agency and the second with one another. All orders were distributed among members according to quota, and each member had one vote to every 10,000 tons of production.

As the selling agency of this vast organisation was concentrated in a single management. the whole power of the German steel industry could be used for the development of a



foreign market or the destruction of a foreign rival.

But not only was a single industry combined in a cartel ; there were also combinations and unions of several stages of production. Thus coal mines combined with furnaces, furnaces with steel works, and steel works with rolling mills and machine factories. In the German iron and steel industry alone 4,962 plants had entered into such combinations up to 1905, comprising eighteen branches of production. These fusions meant not only economy and insurance, or security, but also power. They were effected either by exchange of stock between related enterprises or control and absorption of the smaller by the larger. A small number of concentrated enterprises of vast extent were thus given power over a vast production of staple goods which could be used for the organised invasion of foreign markets.

Most of these organisations were either supported or carried through by the banks which supported the enterprises concerned.

The German electrical industry is probably the greatest work of the German banks.

In 1883 the first German stock company in the electrical industry was established by Emil Rathenau in concert with Siemens and

Halske. The enterprise was supported by a number of German banks working in co-operation.

In 1884 Rathenau's company separated from Siemens', and in 1887 called itself the Allgemeine Elektrizitäts Gesellschaft.

In 1900 there were seven great electrical groups supported by seven groups of banks. Two of these dropped out, and between 1902 and 1904 a complete merger took place between the A.E.G. and the Union Company, accompanied by a corresponding combination of banks. In 1903 Siemens and Halske combined with Schuckert, and in 1908 the Siemens-Schuckert and the A.E.G. entered into an agreement, and jointly organised the Elektro-Treuhand Gesellschaft, a credit institution.

The Felten and Guilleaume Lahmeyer Werke Aktien Gesellschaft group combined in much the same way to establish their Electric Bank.

These combinations would not have been possible without the support of the banks, for the electrical industry is a debtor industry.

As the industries combined the banks supporting them also combined. And there are now only four great groups of German banks—the Deutsche, the Darmstädter, the Dresdner, and the Disconto.

Each of these German banks is in itself a cartel or union in the German banking system, and the four together are united in their Consortial Bureau which deals with all those interests which they have in common, and arranges their spheres of influence.

*State Interest in Industry.*—In this closely-knit economic system the State takes an active part. The German State is itself a great industrialist. It owns the railways and waterways, and is therefore strong in the transport and export industries. As a great purchaser of iron and steel for transport and for munitions and arms, it is deeply interested in the iron and steel industries. Kindred reasons bring it into touch with the electrical and chemical industries. It is the owner of great coal mines and therefore takes a share in the control of the coal industry. It owns several of the potash deposits, and for that reason is a principal partner in the great potash cartel, which is a peculiar feature of the German industrial system.

Potash is a natural monopoly of Germany, and as potash is essential to many industries, among them the agricultural, the chemical and the electrical, the potash syndicate spreads its roots and radicles far and wide through the German industrial system.

. Again, the mobilisation of financial power being an important part of war, the State is deeply interested in German banking, and the German Reichbank supervises and controls the activities of all the great German banks.

So also in commerce, as the revenues of Germany largely depend on its tariff, and as the tariff is the principal factor in the commercial system, the State has a vital interest in German trade. In special branches of this trade, as, for example, the importation of the non-ferrous metals required for munitions of war, the State takes an active and possibly a predominating share. We may suppose that it directs the industrial policy as far as possible, not only to the strengthening of German industry, but to the weakening of rival economic systems.

*National Organisation of Industry and Commerce.*—We have now seen that the German economic system rested on production. This production developed and organised itself until weak, tender and separated growths became a thick, interwoven mass, so closely knit, so strong of fibre, so hard of skin, that penetration from outside became almost impossible. We have seen also that this formation developed something which approached to a common will or a directing intellect.

In the same way we can trace the growth of German world commerce. We can see this growing organism beginning to throw out radicles and suckers at first weak and short, but growing tougher and longer with the living energy of the massed production behind until the strong roots spread, pierced, and intertwined over almost all the world. This powerful system we can hardly describe in the terms of our classical economist as "truck barter and exchange," any more than we can describe the system from which it grew as the division of labour. It is rather a process of invasion, suction, exploitation.

When the Deutsche Bank was founded in 1871, such German foreign commerce as existed was forced to use the English and French machinery of exchange. Bills in German currency had no foreign market; English bills had an almost boundless and unlimited circulation. London was still "the clearing-house of the world," although English bankers had forgotten that this financial supremacy rested upon industrial supremacy.

The Deutsche Bank founded its first over-sea branch in London in 1873, and gradually elaborated a process by which British capital was used to finance German commerce and to strengthen German industry. The German

bank, resting on its knowledge of German industry and commerce, backed German bills with its own credit, which was the whole organised credit of Germany, and this secured for Germany the free use of British capital.

London was content with the easy profits which it made upon the brokerage of our national energy.

It forgot that the country which is supreme in industry will in the end be supreme also in finance.

When war broke out London had served its turn, and was already ceasing to be the German clearing-house.

"Since," says Reisser, "as a result of continuous efforts, mark bills have gained a respected position in foreign markets alongside of sterling bills, British aid and intervention is no longer required in nearly the same proportion to settle the balance of payments on account of German imports and exports. The time may be said to have passed, at least in the majority of cases, when German exporters, in order to collect their foreign claims, and foreign exporters, when selling goods to Germany, had to draw on London, or when German importers had to settle the credits of their sellers *via* London."

But while London was no longer necessary

to the German economic system, it was still useful, and it was still exploited. The German banks used British credit not only to finance German commerce and industry but to give them an advantage over British commerce and industry.

It is obvious that when two merchants are competing for an order, credit may be a factor no less important than price. If one merchant can offer the customer six months in which to pay for the goods, he has a notable advantage over the other merchant, who can only offer the customer three months' grace. And this advantage was given to the German merchant by his co-operation with the German bank. But the German bank in this transaction offered not its own credit, but the credit of the British bank. "It is alleged that German distributing houses in Russia, the Levant, Central and South America have been able to offer extended terms of credit and thereby to obtain a considerable amount of trade owing to the support they receive from their Banks. The bills drawn upon clients in these markets eventually find their way to London. They are endorsed by the German banks upon whose endorsement they are readily discounted in the London market. In effect, therefore, the longer credits given

by German merchants rested ultimately upon British finance.”\*

While the German banks were thus sucking the energy from the veins of the British industrial system, they were spreading their own network of agencies, branches and controlled houses.

In this work the German banks acted sometimes separately, but generally together. In 1871, the Darmstädter Bank founded the Amsterdamsche Bank which in its turn planted six branches in the chief trading centres of Holland. But the Darmstädter Bank co-operated with the other German banks to found the Bank Internationale de Bruxelles. Six of the great German banks, headed by the Deutsche Bank, founded the Banca Commerciale Italiana in 1894, with its head office at Milan, which spread fifty-four branches throughout Italy. Seven German banks combined to found the Deutsche Asiatische Bank. Three German banks formed the Deutsche Orient Bank. The Deutsche Bank organised in 1886 the Deutsche Ueberseeische Bank with twenty-eight branches in Chili, the Argentine and Spain. By working in close co-operation the banks effected their

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\* Report of the Department Committee on the Textile Trades (1918).



purpose with the smallest possible outlay of capital. Although they dominated the policy of the Banca Commerciale Italiana, it is calculated that latterly they had only  $2\frac{1}{2}$  per cent. of the stock of that Bank. When they had secured the machinery, and had collected native capital they could withdraw their own for other purposes.

It is important to remember that this great network of German banks was spread to serve German industry. "The German banks," says Reisser, "regarded it as one of their chief functions actively to support both at home and abroad domestic industry and the export policy. . . . On this depends not only the maintenance and the extension of our influence and importance abroad, but what is more, our entire domestic existence."

"Every German bank abroad," said Siemens, "is a pioneer of national industry."

They served German industry not only by financing the export of German manufactures and the import of raw materials, but in other ways. They lent money to foreign enterprises and to foreign governments and public bodies, and as a condition of these loans they insisted on the use of German manufactures and machinery. They also supplied German

manufacturers with the information they obtained in the course of their business operations, and they are even charged with sending copies of the invoices they held as securities to German manufacturers. As the German banks are vitally interested in German industries and share in their management it would be surprising if they did otherwise.

The German banks went further. They financed and organised selling agencies for combinations of German industries. These combinations and agencies are a main part of the German economic system. Thus the Exportverein of Dresden sold in foreign markets the manufactures of a thousand firms. In China, one German organisation represented no less than forty-seven engineering firms, besides Krupp & Co., two shipping houses, one marine insurance company, and one fire insurance company. It had over twenty branches, and had relations with the officials of every Chinese government, central and provincial, Where British competitors offered to take over one branch of a public work, this great organisation could tender for the whole—even if the contract embraced every form of industry.

A South African witness, on whom I can rely, describes the growth of one of these

German circles. Some years before the war a finance company appeared in Johannesburg. Its advance agent was armed with letters of unlimited credit from the Deutsche Bank. Its first operation was to finance a gold-mine on condition that it shared in the management, and that the orders for plant went to Germany. In exchange for shares issued to the original owners the Company secured complete control of the mine and paid for the machinery with first mortgage or debenture bonds. These bonds were guaranteed by the bank and accepted by the manufacturers. The mine was then floated in London, and more capital obtained, which was used to pay for the German machinery. The finance company itself became a British limited liability company, although the whole Board and Staff were either directly or indirectly paid servants of the Deutsche Bank, and commanded over a million of capital, chiefly British and French. It now extended its control over enterprises complementary and subsidiary to the mining industry; these enterprises were supported with credit, and were forced to take a representative of the Bank on their boards. As a condition of the partnership they were all bound to buy goods from members of the

circle if the goods required were to be had within the circle.

The relations between the Banks and the German selling agencies are sometimes direct and usually indirect ; but they always exist. A Dresden bank was actually the selling agent of the Saxon cellulose combine, and the German wire nail manufacturers combine put their sales in the hands of a Berlin bank.

It may be said that such enterprises demand expert knowledge that banks cannot possess. But as the German banks are habitually engaged in industry and commerce, it is their business to weigh the worth of men and enterprises. They have thus developed an industrial and commercial intelligence system which has no counterpart in British banking.

The system creates the aptitude. When British banks are contracting men into clerks and accountants, the German banks are expanding them into industrial and commercial experts.

While the great German industrial groups, like the Stahlwerksverband, the A.E.G. and Siemens Halske had their own selling organisations, they were assisted in financing foreign undertakings by the banks with which they were connected.

An American authority states that the

A.E.G. is connected through common directors with banks and banking groups representing 533,234,000 dollars. These banks "have assisted the A.E.G. in financing many foreign undertakings in which electrical equipment was required, such as power plants, street railways, electric light plants, etc. They have also assisted in special banks and trust companies for electrical enterprises (Banken für Elektrische Unternehmungen) preferably abroad, whose especial function is the financing of foreign electrical enterprises through the issuance of bonds."\*

With such financial backing, an industrial enterprise like the A.E.G. was not only in a position to offer its manufactures on long terms of credit; it could obtain permanent control of foreign enterprises which used its manufactures.

Thus, for example, the Buenos Ayres tramway system was in the first case constructed by a British Company with British material. When the system came to be electrified, the A.E.G. offered as part of its tender to guarantee a dividend in perpetuity on the share capital of the company, on condition that it

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\* Federal Trade Commissioner's Report on Cooperation in American Export Trade, vol. i., p. 276.

took over the management and supplied all renewals of plant.

The Company remained British in name, but in reality had no power save to draw its dividends. Even during the war it could not buy new machinery for its own system in England. It was granted an authorisation by the German Company only to buy machinery in America, and I am informed that this authorisation was conveyed through our postal censorship on the back of a postage stamp.

But these great German enterprises were not only supported by the banks in their foreign trade; they were allied with complementary and subsidiary industries.

If the A.E.G. takes a contract abroad, not only the electrical machinery, which it supplies from its own works, but the chemicals, the glass, the metals, the transport, the insurance, are all carried out by firms which it controls, or with which it is connected.

*Control of Raw Material.*—As the German economic system organised to secure foreign capital and to secure foreign markets, so they organised to secure raw material. The production of raw material in Germany itself was organised at first as a separate industry, and the German raw

material competed in the markets of the world with British raw material. But as the German economic system progressed, the policy of such selling organisations as the German coal cartel was modified by the influence of those German cartels which depended upon coal. And so with the sale of pig-iron. The German industrial system as a whole saw the advantage of using their own raw materials as much as possible for their own industries, and by a modification or merging of the cartel system, German industries were put at an advantage as against foreign industries in the use of their raw material.

When the sources of raw material were outside the German State, the Germans set themselves to secure the control of those sources. They merged the needs of German industry in one great buying organisation, and this buying organisation had the same power of capital and concentration as a selling organisation of German manufactures. They were supported by the concentrated capital of the banks, and the resources of all the German industries which used the raw material in question.

The great buying organisations of non-ferrous metals were chiefly in the hands of

German Jews, and have been described as international. They are in fact German in capital, direction and policy. The patriarch of this business was one Philipp Abraham Cohen of Frankfort. Cohen supplied part of the capital with which his son-in-law, Henry R. Merton, started business in London. Wilhelm Merton, son of Henry, founded the Metallgesellschaft in 1881, in which was merged the metal business of grandfather Cohen. Three years before, both houses had combined to form the American Metal Company. Between them also they formed in 1897 a subsidiary company, the Metallurgische Gesellschaft of Frankfort, which held interests of the parent companies in mining and smelting plants. In 1906 the Metallgesellschaft, the Deutsche Gold und Silberscheidanstalt, the Darmstädter Bank, the Berliner Handelgesellschaft, the Discontogesellschaft, and several private bankers of Frankfort combined to found the Burg und Metallbank of Frankfort, in which the various Merton companies placed from one-quarter to one-third of their capital. In 1910 this Bank was consolidated with the Metallurgische Gesellschaft of Frankfort with a capital of 40,000,000 marks.

Thus the financial centre of the Merton group is and always has been Germany, and



it never could be said of the Merton Company of London that it had a separate existence.

This great Frankfort house secured control through shareholdings and directorships both of English companies which traded in or used metal and the Australian and African companies which produced it.

It was associated for certain market operations with the other great German metal dealers, Beer, Sondheimer & Company, and Aaron Hirsch & Son.

It is true that the London Metal Market was looked upon as the fixer of prices ; but the German combination ruled that market. Thus an important American witness stated to the Federal Trade Commission :

“ The German consumption was such a large proportion of the total amount of copper exported that German buyers had more influence in fixing the value of copper than the English buyers. It was very evident to this company that the buyers of Germany worked as a unit. They would repeatedly remain out of the market for weeks at a time and would not accept any offer made, during which time the American sellers would accumulate such amounts of copper that they would be obliged to reduce their offers. The German buyer would wait until the offers were reduced suffi-

ciently and then would come in again as the unit and buy in very large quantities.

By this process the Germans were able to buy at lower prices even than the American buyers.

The Australian metal producers were entirely in the hands of the Merton group through its subsidiary, the Australian Metal Company, and before the war contracts were arranged which bound these producers up to 1918.

Zinc was controlled by a syndicate called the Zinkhüttenverband, an organisation controlled by the Metallbank, Beer Sondheimer, and Aaron Hirsch. This syndicate controlled the prices of the international syndicates which included ten Belgian, six English, and some French works.

The Metallgesellschaft organised the lead market in the International Lead Convention which included the Australian lead mine owners. The markets in nickel, spelter and aluminium were also controlled by the same combination. The Mond Nickel Company, for example, sold its product even for some time after the war only through Merton's.

The Metallgesellschaft and the Metallbank are linked by interlocking arrangements with Krupp's and the great steel, shipbuilding, ordnance and munition manufactures.

When war broke out all the large German users and traders combined in the *Kriegsmetallgesellschaft*, which was merely the formal expression of a unity which had long existed.

Here, then, we see that the German economic system, both in industry and commerce, is something altogether different from the conceptions of our classical economists. Adam Smith spoke of the division of labour, but here we see the organisation of labour ; Adam Smith postulated competition between individuals, but here there is combination not between individuals merely but between industries. The whole German economic system was becoming, if it had not already become, a single unit for purposes of competition with the individual enterprises of foreign nations.

And behind this economic system, using it and used by it, was the power of the German State.

It is indeed a disturbing and tremendous phenomenon. And if we keep security before us as the object of our national policy we must admit that against such a power individualism offers no security. The free individual and the organised national system can hardly exist in the same world.

## CHAPTER VII

### A CONFLICT OF POLICY

*England's Ancient Imperial Policy.*—The conclusion at which we arrived in our last chapter was that free individualism and an organised national system could hardly exist in the same world. I do not suggest, however, that the British Empire was either founded on or committed to the principle of individualism. On the contrary it is true that the British Empire was founded on principles of organisation and that a great part of the British Empire never abandoned those principles. To make this point clear we must retrace our steps and follow from the beginning to the end the conflict between these two principles of individualism and organisation in the British Empire.

Organisation grew by the desire for national security. We find it in the early history of our Colonial Empire when our colonies were planted and our dependencies conquered by

such corporations as the Virginia Company and the East India Company. These companies, which were sometimes regulated and sometimes joint-stock, carried out the national policy and were supported by the State.

This national policy had two main purposes, to secure supplies of produce and raw materials and to secure a market for manufactures. The primary object of the old colonial system, according to Beer, was "to develop the wealth and power of the Empire." This was best to be done by making the Empire "a self-sufficient economic unit, independent, as far as was possible, of competing national groups."

In this system mother country and colony complemented each other, the one supplying manufactures, the other raw materials and tropical produce. This trade was carried on exclusively in British and Colonial shipping, "with the object of increasing the Empire's naval strength."\*

Colonial timber and pitch were given a preference over the timber and pitch of the Baltic in order to secure our shipbuilding ;

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\* "British Colonial Policy, 1754-1765," by George Louis Beer.

colonial pig-iron was given a preference over the pig-iron of foreign nations to secure ourselves in arms, and British manufactured iron and steel, cordage and sailcloth were protected both in the British and Colonial markets.

Colonial dyes, potash, sugar and tobacco were given a monopoly of the British market, just as British textiles and manufactures of iron and steel were given a monopoly of the colonial markets. This policy succeeded so well that in our wars with Holland and France we won the victory at sea and were always able to supply ourselves with a sufficiency of colonial produce.

This policy was sound in principle, but erred in detail. Thus while colonial shipbuilding was permitted, the colonial carrying trade was restricted; while we encouraged the colonies to produce wool and iron we forbade them to make cloth and horseshoe nails. We attempted to keep our manufactures at one centre and were afraid to allow the colonies to develop their own industries. As England legislated for the whole Empire in its trade policy, so England strove to maintain a monopoly of manufactures within the Empire.

Even so it is the judgment of Beer that

“the system of trade regulations tended to give greater cohesion to the Empire . . . and ran counter to the strongly marked tendency towards political disintegration.” We may suppose that if the colonies had been given a share in the control of this policy, there would have been no War of Independence.

Our second Colonial Empire, which is to say Canada, Australia and the Cape of Good Hope, with the West Indies and Mauritius, remained true to this policy of economic unity.

*Adoption of Free Trade.*—There came a time, however, when the victory of the British Navy and the British Army led our British merchants to forget the principle on which they had founded their Empire. As an army after a complete victory is tempted to scatter and separate into troops and single men in search of plunder, so our merchants when the destruction of the French economic power left no competitor in the field, broke into groups and individuals and thought of nothing but gain.

British policy abandoned security for profit, and the colonies were thought to be unprofitable. “I am inclined to think,” said Bright, “that, with the little exception of Australia, there is not a single dependency of the Crown, if we come to reckon what it has cost in war

and protection, which would not be found to be a positive loss to the people of this country."

Bright held that separation from Canada would be good for both countries, and Cobden pointed the way :

"The colonial system," he said, "with all its dazzling appeals to the passion of the people, can never be got rid of except by the indirect process of Free Trade, which will gradually and imperceptibly loose the bonds which unite our colonies to us by a mistaken notion of self-interest."

While the Free Traders held these views of our colonies they were tempted to abandon them by the same consideration which moved them to the abandonment of British agriculture. Germany, the United States, and France were protecting their manufactures. The British Government abandoned their preferential system with the colonies in order to secure a free market in those countries.

Canada, the West Indies and the Cape suffered most by this policy. Canada, by the loss of the preference on timber and corn was brought to the edge of ruin. In 1849 the business men of Montreal petitioned for annexation to the United States.

"The reversal," they said, "of the ancient



policy of Great Britain whereby she withdrew from the colonies their wonted protection in her markets has produced the most disastrous effects upon Canada. In surveying the actual condition of the country what but ruin and decay meets the eye? . . . Crippled and checked in the full career of private and public enterprise, this possession of the British Crown—our country—stands before the world in humiliating contrast with its immediate neighbours, exhibiting every symptom of a nation fast sinking to decay." The only remedy, these petitioners concluded, "consists in a friendly and peaceful separation from British connection and a union upon equitable terms with the great North American Confederacy of Sovereign States."

The pitiful tone of this memorial reminds us of the indignant words of Bacon: "It is the sinfulness thing in the world to forsake or destitute a plantation once in forwardness, for, besides the dishonour, it is the guiltiness of blood of many commiserable persons."

So it was also in the Cape Colony. The Cape wine trade with England had been built up on a preference of some shillings a gallon. Upon that foundation the fair mountain valleys of the Western Province had been planted with vineyards, and the Dutchman

grew reconciled to the British flag when he reflected that these richly laden morgen depended on the preference given by the British Government. But Cobden, who knew nothing of those "commiserable persons," swept away the whole system at a stroke in order to open the market of France for British manufactures. Without warning and in a single year the Cape wine farmers found their only overseas market lost to them. The fabric they had built up on the faith of the British Government crumpled into ruin.\*

And so with the sugar trade of the West and East Indies. England had made of her tropic islands a great plantation for the growing of her sugar, which was chiefly refined in the factories of Greenock, Liverpool and London. It was a system which gave us a secure supply of sugar, whether in peace or war, as long as we commanded the sea. In 1834 the slave trade was abolished; but a prohibitory tariff against slave-grown sugar helped the West Indies to rebuild their industry on a basis of free labour. But this

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\* Dr. Jameson stated at the Imperial Conference of 1907 that before the Cobden Treaty (1860) with France the Cape sent to England 800,000 gallons of wine a year, Colonial wine having a preference of 2s. 9d. against 5s. 6d. per gallon on foreign wines. This preference was abolished and the Cape wine trade destroyed.

duty was lowered in 1846 from 63s. to 23s. and was then entirely abolished. The slave-owning planters of Cuba and Brazil were thus allowed to use their advantage to destroy our own plantations, and England having satisfied her conscience with liberation continued to satisfy her stomach with slave-grown sugar.\* For two-and-twenty years the West Indies suffered from what Froude justly calls this "iniquitous competition," and when at last slavery was abolished in Cuba and Brazil our planters were faced with a new and more formidable enemy, the "bounty-fed" beet sugar of Europe.

Here, as elsewhere, the German State followed the policy which England had discarded, for England had built up her sugar industry in the struggle with Spain and France by State aid and protection. In 1761 Joseph Massie estimated that her sugar plantations had cost England £10,000,000, calculated on the difference of price between French and British plantation sugar. But it was a price worth paying if it secured us in an article of food and manufactures which we now find we can ill do without.

We may pause again to pity those com-miserable people who had established their

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\* Froude's "English in the West Indies,"

industry on the faith of the British Government. "These colonies," said a memorial of the West India Committee in 1885, "have the mortification of feeling that the only bar to their progress and prosperity lies in their connection with a country in which all their loyalty and affection are centred."

If industry be deemed a virtue in a man, so the planting and care of an industry is a virtue in a nation. And conversely as it is shameful in a man to allow his land to fall back under nettles and darnels, so it is shameful in a nation to allow her plantations and industries to decay. And if this British nation be the trustee of an Empire, then it is an obligation in the trustee to maintain that Empire in its fruitfulness. Let us at least be sure that Nature—even if we no longer consider the justice of God—will recognise no other title of possession

Our colonies, however, clung desperately to the old principles of Imperial policy: protection and organisation.

Canada, as we have seen, had been brought to the edge of ruin when England withdrew the preference to her timber and her grain. Her first despairing impulse was to turn from England to the United States, and in 1854 Canada concluded a reciprocity treaty with

the United States. But the policy was repugnant to the national instinct of Canada. In the Civil War of 1861 this national instinct showed itself so plainly that feeling ran high between the two countries, and the United States denounced the treaty and made an organised attempt to destroy Canadian industries. In 1878 Sir John MacDonald was returned to power upon a national policy of protection, and in 1879 the Canadian national tariff was established. It is a coincidence worth remarking that the Dominion of Canada and the Empire of Germany were consolidated by the same means in the same year.

*Colonial Policy.*—Here then was a result of Free Trade which the British Government had not anticipated. It created in Canada a new industrial system which protected itself by tariff against British manufactures. South Africa followed a similar course. The Dutch who were alienated by the destruction of their wine trade concluded a customs union with the Orange Free State and attempted to conclude a customs union with the Transvaal. And this is another curious parallel. If the reciprocity treaty between Canada and the United States had succeeded it is probable that there would have been a republic including the whole of North America : if the design

to create a South African customs union had succeeded there would probably have been a republic including the whole of South Africa. Both designs came within an ace of success, but both designs failed. In South Africa the Cape at first commanded the roads into the interior and used this command to levy a toll on the wealth of the Transvaal and to force the Transvaal into the customs union on the terms of the Cape. The Transvaal, however, discovered an alternative route to the sea by way of Delagoa Bay, and the design failed. The result was a long period of economic and political friction bordering on civil war.

In Australia the various States heard with dismay and alarm of the destruction of the Imperial trade system. They had no desire and no opportunity to unite with any other system, and they were separated from one another both by their positions along a great length of coast and by their own State organisations. They felt themselves neglected and forgotten in their vast antipodean waste by the only Power to which they could look for protection. Their first thought was to separate, "to cut the painter," as they expressed it, but the invasion of the Pacific by Germany and the existence of possible enemies elsewhere suggested the danger of that course.

Their second impulse was to unite their forces and to protect themselves. As in Canada so in Australia, the reaction against the cosmopolitanism of Free Trade was the growth of Colonial Nationalism. The Australian States began to build themselves up first by economic union, then by political union, into a strong Australian commonwealth, jealously guarding their own manufactures and their own rights of self-government.

But none of these Dominions gave up hope of re-establishing the old Imperial system. I do not know who suggested the first Colonial Conference of 1887. Probably it was a birth of several minds. It is perhaps worth noting that Cecil Rhodes in 1891 told the wine farmers of the Paarl of a conversation he had had long before with Lord Salisbury. He had said to Lord Salisbury: "If you wish to retain the sentiment of the colonies, you must consider day by day how you can give the people some commercial advantage, and thus show them that the tie with England is one that is of practical advantage to themselves." He had told Lord Salisbury of the destruction of the Cape wine trade, and he added: "When I discussed this with Lord Salisbury, I adopted the suggestions I had had from Mr. Hofmeyr about a differential rate, and said the greatest

tie England could make with Cape Colony was to return to the system of 1858."

However it may have been brought about, the Conference met in 1887, and at that Conference both Queensland and Cape Colony made proposals which go to the very roots of our subject. On behalf of Queensland Sir Samuel Griffith proposed that the Conference should discuss "the practicability of consolidating and maintaining the unity of the Empire by . . . a community of material interests as distinguished from the rest of the world." The means he proposed was that "a higher duty should be imposed on goods coming from foreign countries than on those imported from Her Majesty's dominions." And the Cape Colony put the matter even more definitely: "the feasibility of promoting closer union between the various parts of the British Empire by means of an Imperial customs tariff, the revenue derived from such tariff to be devoted to the general defence of the Empire."

Such were the proposals laid before the Colonial Conference of 1887. Their meaning is clear. They were proposals to weld the scattered States of the British Empire into one great economic system using its common resources for the general defence. It was a



policy founded on security. Lord Salisbury was then Prime Minister and made an opening speech. It is plain from that speech that he saw the great issues involved. He drew a comparison between the British Empire and the German Empire: "Before the German Empire came to its present condition it had two forms of union, both of which I think might be possible in an Empire such as ours, though both, perhaps, are not possible now. There was the Zollverein, the customs union, and there was the Kriegsverein, the union for military purposes." As to the customs union he feared that for the present it must be put in "the distant and shadowy portion of our task." It was not impossible, as the customs union with Ireland showed, but the Free Trade policy of England made it impossible for the present—"until on one side or the other very different notions with regard to fiscal policy prevail." There remained the Kriegsverein, the "union for purposes of mutual defence"; that was "the business which the Conference had now before it."

Here we see a British statesman making a fatal division, a division between the question of defence and the question of industry. He was prepared to see each dominion go its own way in economic policy yet expected

that all should go the same way in military policy.

The colonies never took the same view. They knew that if Canada had joined the United States in commerce the defence of Canada would have become an American interest ; that if the Cape had joined the Transvaal in a customs union a political union under the republican flag must have followed. As practical men they saw the truth that any system of defence must be based on an economic system. For these reasons they persisted in debating the question of preference. " I submit," said Sir Samuel Griffith, " the question for discussion because I believe . . . that material interests have a very great deal to do in keeping a country together. . . . I contend that the same principles ought to be applied in dealing with foreign nations in matters of trade as in dealing with foreign nations from any other point of view. A man's first duty is to his family, and then to his country ; and by country I mean it in the largest sense—the whole British Empire ; the first duty of every one of us in every country in the Empire is a duty to the Empire before our duty to any foreign country." This principle, he pointed out, was recognised everywhere but in

England "in consequence of the prevalence of doctrines in England, which I believe are not recognised in any other country." "Some day perhaps human nature will advance so far that we shall regard all mankind as so truly a brotherhood that we shall no longer have any feelings of rivalry with foreign countries, and it will not be necessary to take any steps to protect ourselves against them." But while other countries did not recognise that doctrine and while we did not really recognise it ourselves, whatever we might profess, we should give material advantages to people of our own Empire.

Jan Hofmeyr made a survey of the whole subject. He pointed out that the West Indies as they could no longer sell their sugar profitably in the British market were turning to the United States. A market in the United States would have meant prosperity and the alternative meant poverty. The West Indies, he was told, were only prevented from commercial union with the United States by the treaties and obligations of the British Empire. "When," he said, "one's loyalty and one's attachment to the Empire are thus divided against one's self-interest, it is only reasonable to expect that one's attachment to the Empire is very likely to suffer." Therefore he was not

surprised at this feeling in favour of annexation to the United States among the West Indian planters. So it had been in Canada, and if the Canadian treaty with the United States had lapsed it had been on account of the unwillingness of the United States to continue that treaty. Other colonies were going the same way and if they had their liberty he feared the unity of the British Empire would suffer.

Now, what had the Conference done on the question of defence? The Australian colonies had offered a subsidy if a few ships were kept in their waters; but the rest of the Empire had not agreed to do anything. Yet the German and the French navies were coming up, and the time might come when the Imperial Government would require greater assistance from the colonies. When that time came the British Empire "should have some other consolidating force in addition to mere sentiment. It should have the force of self-interest." Therefore he proposed a closer fiscal union in order to obtain a revenue which might be used to strengthen the navy. "I aim," he said, "at something that shall supply a cohesive force to the Empire, and shall at the same time provide revenue for defensive purposes." The other delegates

agreed with Mr. Hofmeyr. "I agree," said Mr. Deakin, "in believing that one of the strongest of the ties than can unite the colonies or peoples together is the tie of self-interest, with all the other ties which flow from intimate commercial relationship in the way of intercourse and association."

The proposal fell to the ground because the British Government did not accept it. The British Government, indeed, was now following a policy which made it impossible. It had entered into treaties with Belgium and the German Empire which forbade British colonies to levy higher duties on the imports from Belgium and the German Empire than on the corresponding imports from Britain. Thus Germany and her treaties contrived to prevent a British Zollverein. In 1890 Canada petitioned against these treaties, and in 1892 the Canadian Parliament prayed the Queen for their termination. It was inexpedient, they said, to preclude the colonies from giving preference "so far as it restricted the power of Britain and the self-governing colonies to take measures for the protection of British trade against the increasingly aggressive policy of foreign countries." At the Imperial Conference of 1894 Mr. Foster put the case for Canada. He agreed "that

the flag is a bond . . . the Queen is a bond . . . the constitution of Great Britain . . . is a bond . . . their common institutions are bonds . . . the army and navy, which embody the defence of the Empire . . . were a bond of unity and a bond of strength ; but underneath all this there is one thing which is stronger. . . . I refer to the common blood of trade and commerce which flows from the heart of the Empire out into the limbs of the dependencies, and back again with its strength and vivifying influence to the heart of the Empire." Trade and commerce carried with them knowledge and sympathy and created the powerful and common bonds of a material and social interest.

In this influence of commerce Mr. Foster saw " the guarantee of the future unity, the future stability and the future prosperity of the great British Empire."

And this is no doubt the truth. Commerce supported by industry is the reality of political influence ; the British merchant selling British goods and buying raw material made the British Empire ; if he were to disappear no political machinery or naval and military power could hold it together. Commerce is the true propaganda as industry is the true strength of an Empire.

And conversely the German merchant selling German goods was the centre and agent of those forces which weaken and destroy. War is the intensification of this struggle of peace.

"In matters of trade and commerce," said Mr. Foster, "there is war." Therefore we should treat our own colonies better than foreign countries, so that when war came we should have the strength and unity to defend ourselves.

And here Mr. Foster quoted Lord Salisbury who had said a little while before :

"We live in an age of a war of tariffs. . . . Great Britain has deliberately stripped herself of her armour and her weapons by which the battle is to be fought. You cannot do business in this world of evil and suffering on those terms. If you fight you must fight with the weapons with which those whom you are contending against are fighting."

Then there was the question of food supply in war : "Put a cordon around England for twenty-four days, and what will become of her people ? " In a great war foreign powers would keep their own food to themselves.

"The strategic food supply of Great Britain is in her own colonies."

With them she would never be at war , between them and herself it was most easy

for her to keep continual communication. Therefore it was good policy to stimulate her colonies to become the supply centres of food to Great Britain.

Such were the arguments used at the Imperial Conference of 1894 for a system of preference within the Empire. But the opposing forces were again too strong; they had grown stronger in the intervening years. Jan Hofmeyr feared for his South African Customs Union. That Union united the Cape and the Orange Free State, and he hoped that the Transvaal and the great Northern territory up to the Zambesi would soon be brought into it. He was already tied to a foreign Power, and could not without permission of that Power vote for Imperial unity.

As for England, her foreign trade was greater than her colonial trade. Imports from the colonies and India were at that time a little less than a quarter of the whole; and exports to those countries were a little less than a third. The British Government reversed the principle of Adam Smith; they regarded opulence as of more importance than security, and they therefore decided to do nothing.

The Conference appeared to have failed,



save for its pious resolution; but the statesmen of the Dominions went forward alone.

*Preference without Reciprocity.*—Rhodes put a Preference clause in the Constitution of Rhodesia. "I thought it would be a wise thing," he said to the shareholders in 1895, "to put in the Constitution that the tariff (on British goods) should not exceed the present Cape tariff, which is a revenue and not a protective tariff . . . this clause being in our own charter, would govern the rest of Africa, and therefore you would have Africa preserved to British goods as one of your markets."

The British Government had refused to accept this clause; but he hoped it would be saved.

"All these big questions, remember, come from little things. If you carry that clause in the Constitution of Matabeleland, you do not know how it will spread, the basis being that your goods shall not be shut out of the markets of the world. That clause will extend from Matabeleland to Mashonaland, throughout Africa, and then, perhaps, Australia and Canada may consider the question. You will be retaining the market for your goods. You have been actually offered this,

but have refused it, because you did not understand it."

Those who are curious in the history of tariffs may care to know that Rhodes' simple device had been used by the Germans in England seven hundred years or so before. The German merchants of the Hanseatic League obtained from Henry the Third a charter fixing their customs at the rate of the Old Custom, the *Antiqua Custuma*, and this royal charter was confirmed in every subsequent reign until the time of the Tudors. As the customs rose with the needs of the Government, the Germans remained by virtue of their charter, on what financiers call "the ground floor," so that they had an advantage in the English customs not only over all foreigners, but over Englishmen themselves.

But to return to these present times. In 1897 Canada gave British goods a preference of one-eighth on her general tariff rates, this reduction to be increased to one-fourth in the following year. Canada intended this reduced rate to apply only to Great Britain, but Germany and Belgium claimed to share in it under their British treaties, and the law officers of the British Crown supported the foreign view. On the 1st August, 1898, this reciprocal tariff was therefore repealed, and

a new British preferential tariff put in its place. This latter tariff gave the United Kingdom and some of the British colonies a preference of one-fourth of the general tariff rates on all goods with certain specified exceptions. In 1900 the preference was increased to one-third, in other words  $33\frac{1}{3}$  per cent.

Thus in 1897, when Joseph Chamberlain called another Imperial Conference together, the colonies had already begun to adopt that preferential system which they had been urging upon the British Government for twenty years, and there was already a hint of the conflict to follow. Germany opposed this unifying movement in the British Empire as we long before had opposed the unifying movement in the German Empire. The German Government had been in sharp conflict with Cecil Rhodes in South Africa. It had secured Damaraland, the country which might form a convenient bridgehead for an attack on Kimberley and the Rand. It had sent its agent to Lobengula just too late to secure the concession of Mashonaland. On January 3rd, 1896, the German Emperor sent his famous telegram to President Kruger. The Australasian colonies and the Dominion of Canada replied to that telegram by ranging

themselves openly on the side of the mother country.

We are not surprised, then, to find Chamberlain at the Conference drawing a parallel between the Empire of Germany and the British Empire. He reminded the colonial statesmen that the Zollverein had united the Empire of Germany. "It commenced," he said, "entirely as a commercial convention, dealing in the first instance with the trade of the Empire, it was rapidly extended to include the whole trade of the Empire, and it finally made possible and encouraged the ultimate union of the Empire." He could not but see, however, the difficulties which confronted them if they tried to follow the same course to the same end. The colonies had now developed their own fiscal systems. The German and Belgian treaties stood in the way. Was the Conference prepared to advise denunciation? The British Government had already given notice to Germany of these treaties. The colonial ministers "unanimously and earnestly recommended the denunciation," but in the meanwhile they could do little or nothing. They were in a tangled web of separate arrangements which they would have to cut.

In 1902 the Conference met again. In the

interval England had been down through the deep waters of the South African War. Germany had made its hatred and its hostility visible to the whole world. There was a new note in the deliberations. "Gentlemen," said Chamberlain, "we do want your aid, we do want your assistance in the administration of the vast Empire which is yours as well as ours. 'The weary Titan staggers under the too vast orb of his fate.' We have borne the burden for many years. We think it time that our children should assist us to support it, and whenever you make the request to us, be very sure that we shall hasten gladly to call you to our councils." The colonial statesmen replied as before. Again their main proposal was a preferential trade system to unite the Empire. Canada was already giving a preference of  $33\frac{1}{3}$  per cent. She was ready to increase that preference. Australia was willing to give preferential treatment not yet defined. New Zealand offered a general preference of 10 per cent. all round on British manufactured goods and an increased preference on selected articles on the lines proposed by Canada. The Cape Colony and Natal offered a preference of 25 per cent. Chamberlain chose to stand or fall by the proposals of his colonial ministers. The

British Government had an opportunity of giving Canada a return for its preference on British manufactures by a rebate on the shilling duty on corn. The opportunity was rejected in the Budget of 1903, and Chamberlain thereupon left the Cabinet to fight alone for Imperial unity.

How far Germany took part in that fight we have no means of knowing. I am told that the German Emperor sent Chamberlain a telegram wishing him success, and thereby disarmed a statesman always generous and simple-minded of his sharpest weapon. It is certainly curious that Chamberlain in the many speeches which he made on this subject seldom or never touched on the chief argument for Imperial Preference, the growth of the German economic and political system. Germany singled out Canada for isolation and attack. In retaliation for the Canadian preference to British manufactures she refused the most-favoured-nation treatment to Canadian products. Canada replied by imposing on German goods a surtax of one-third of the general rate of duty, and Germany retired from the field defeated. I need not enter into the details of a struggle which is still in the public mind. When the Colonial Prime Ministers next conferred in London they met

Mr. Asquith and his colleagues, all sworn to oppose the Imperial policy.

The Conference of 1907 was in fact a conflict in which the statesmen of the Dominions took one side and the statesmen of the United Kingdom the other. The one side made their old proposals for an Imperial economic system, founded on the principle of Preference. The other side replied that the United Kingdom must continue in its policy of Free Trade.

The colonial case was based both upon Security and upon Interest.

On the point of security, mutual preference made for unity of interest ; unity of interest made for Imperial organisation, and an Empire organised was stronger than the parts of the Empire taken separately.

“ It makes the difference,” said Mr. Deakin, “ whether you are grains of sand or the same grains compacted into the solid rock.”

And again : “ Every possible increase in co-operation marks a higher stage in civilisation, giving greater opportunities to the individual and greater strength to the nation.”

Germany, Mr. Deakin went on to show, was taking the British Empire in detail, and had been attacking the trade of Australia.

Therefore they must unite.

“ The power possessed by the British

Empire over foreign nations by its possession of a great market—a market to be opened or closed to some extent or to any extent—is little realised, but the most casual observer must recognise the strength of the Empire's position, which is certainly enormous, should all its component parts, combining together, use their power to meet the fiscal attacks of foreign nations upon any portion of the Empire. It is a case of all for each and each for all. . . ."

Mr. Deakin did not propose an aggressive commercial policy but a policy of readiness to use our powers over our own markets for our own defence.

"We should not allow them to lie aside like rusty unused weapons, but to hand and ready for use on occasion, employing them as they have been employed by Germany and the United States and other peoples, in order to secure fair business—no more than fair business."

So much for security. As to profit, the Dominions knew that Germany and America were still great markets of England, and judged by totals might be more important; but these markets grew more insecure and difficult by reason of the increasing strength of the German and American economic



systems. The Dominions on the contrary were expanding markets. They were in their infancy and were bound to produce food and raw materials far beyond their powers of consumption and manufacture. They sold to the mother country not manufactures but food and raw materials, and where other countries sought to keep out British trade they welcomed British trade and gave it a preference over the trade of every other country.

Their people were, man for man, far better customers of England than foreign people, as might be proved by figures, thus :

|                       |        | British Exports<br>purchased per head. |    |      |
|-----------------------|--------|--|----|------|
|                       |        | £                                      | s. | d.   |
| New Zealanders        | (1905) | ..                                     | 7  | 5 0  |
| South Africans (C.C.) | „      | ..                                     | 4  | 5 0  |
| Australians           | „      | ..                                     | 4  | 4 0  |
| Canadians             | „      | ..                                     | 2  | 2 0  |
| Germans               | „      | ..                                     | 0  | 13 5 |
| Americans             | „      | ..                                     | 0  | 5 9  |

Even if totals were taken Australia and New Zealand bought British goods to the value of £24,900,000 a year against £29,500,000 a year—the value of British goods bought by Germany.

But if England were to increase the wealth and population of the Dominions by buying

from them the produce now bought from foreign countries, the purchase of British goods, under the preferential system, was certain to increase enormously.

Such were the arguments in favour of Imperial Preference. They failed. Upon the other side Mr. Asquith admitted that Canadian preference had been "beneficial" to British commerce; but contended that to give preference in return would be a "flagrant and undeniable departure from the very basis of our principle of Free Trade."

The preferential system, he said, "means that we are to consider the question whether we shall treat the foreigners and the colonies as it were differently, and that we conceive we are not able to do."

This made an end of any hope. Sir William Lyne, the Australian Minister of Trade and Customs sorrowfully admitted it. Mr. Asquith's speech was "alien to Britain's colonies: it was treating the British colonies on a par with foreign nations."

He warned the British Government that the situation was changing and that the chance might not come again. Foreign nations were gradually "sucking away the trade and with it the employment and life's blood of the people of the mother country."

With British trade British influence decayed. He himself was strong for Britain by ties of blood "because my father came from Britain and because my grandfather came from Britain." But a new generation was coming in which the tie of blood was less strong; there was something else required to supply its place "and nothing will do that so well as closer unity in commerce."

Here we may say were counsels of wisdom as of devotion; but they were disregarded. The door was "banged, barred and bolted" in the face of our colonies.

One result of this refusal was that the Canadian Government turned again to the policy of reciprocity with the United States. The majority of the people of Canada, however, remained true to the ideal of an Imperial system and reciprocity was defeated. We may take it nevertheless as certain that the system of preference upon one side only cannot long continue.

As well expect one half of an arch to stand without the other arch which should meet it at the keystone. The cement of blood brotherhood may hold together for a time the hanging masonry; but in the end it must fall of its own weight into the ocean over which it stretches,

## CHAPTER VIII

### THE PROCESS OF PENETRATION

*Shipbuilding.*—The British Empire had thus no policy. The mother country pursued wealth and cheapness without thought of economic security. The dominions left to themselves, were fain to protect their own industries and build up their own economic systems. The Crown Colonies and Dependencies were not only refused protection, but were prevented from protecting themselves, and lay like rich gardens without fence or wall open to the plunderer.

This lack of unity, of protection and of organisation in the British Empire gave the German Empire its opportunity. For it is with Empires as with the rest of nature: weakness to defend encourages strength to despoil. The organised German Empire developed a vast system of penetration and exploitation, which burrowed into the vitals of its host, and drew to itself strength and

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nourishment through a thousand roots and suckers.

This process not only exploited the wealth of the British Empire, but weakened its power of resistance and undermined its security.

It is worth while to examine this process of exploitation in some detail, for we shall see how the destruction and transfer of power proceeds from one industry to another, until an Empire which was strong and secure in the possession of all essential industries is reduced to a position of weakness and dependence.

Whereas British agriculture at the beginning of the nineteenth century was far more productive than German, in 1914 German agriculture was far more productive than British. And this despite the fact that German and especially Prussian soil is naturally poorer than British soil.

The Germans nevertheless were not self-supporting in food production. It is calculated that they produced 75 per cent. of their needs ; but they had come to rely dangerously upon Russia for the fodder—barley and other grains—with which they stall-fed their cattle.

England on the other hand had thoughtlessly created two or even three centres of high-power animal fat production over which

she had no control in war—Holland, Denmark and Sweden.\* By relying upon these countries for bacon, eggs, butter and cheese she created food factories on the borders of Germany. They were all within either German military or naval power, so that England established systems of agriculture which Germany was able to use.

For the main part of our food we depended either upon foreign countries or our dominions, and in both cases the supply depended on sea carriage.

Our security in this respect of food rested therefore upon our ships and our ship building. Now we have seen that in the middle of the nineteenth century our shipbuilders stole a march upon Prussia. They turned from the shipbuilding materials in which Prussia had the advantage, namely timber, pitch, hemp, flax and wax, to iron and steel, in which England had at that time the advantage. By their engineering skill and their use of great capital they were able to produce also

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\* According to Dutch statistics: In 1913 Holland exported 8,000 tons of butter to England and 19,000 tons of butter to Germany; in 1916 she exported 2,000 tons to England and 31,000 tons to Germany. In 1913 she exported 19,000 tons of cheese to England and 15,500 tons to Germany; in 1916 she exported 6,800 tons to England and 76,400 to Germany.

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ships of such size that the shallow seas and estuaries of North Germany were unable to hold them. Thus the Germans had to re-make their harbours and establish their iron and steel industry before they could hope to overtake us.

We had a long start, for the Germans had to work from the foundation upwards. But this much was plain to them, that if they could overtake us in iron and steel they could in the end overtake us also in shipbuilding.

We come then to consider the relative strength of the British and German iron and steel industries before the war. In the early part of the nineteenth century and down, indeed, to 1886 Germany took iron and steel from England, and our pig-iron was admitted free of duty. In steel we had a great advantage over Germany for this reason, that the Bessemer process was suitable to our Cumberland ores but was unsuitable to the phosphorus ores of Germany. The discovery of the basic process by Thomas brought that advantage to an end; from 1890 onwards German basic steel was in a position to compete with British acid steel. To this struggle between British and German steel the Germans applied their national system of organisation, concentration and State support.

In 1880 Great Britain produced 7.7 million tons of pig-iron and Germany 2.7 million tons; in 1913 Great Britain produced 10.3 million tons and Germany 19 million tons.

By 1905 Germany had overtaken us in steel production: in that year the United Kingdom produced 9.6 million tons and Germany 10.7 million tons of steel; in 1913 England produced 10.26 million tons and Germany 18.98 million tons.

The result of this decisive victory was that England came to rest upon German steel in her shipbuilding. And in the years before the war this dependence had gone further: not only did the British shipbuilder use German steel; he used German forgings and castings.

“Of the supply of steel forgings delivered to shipbuilders and marine engineers in 1912-1913 some 43 per cent. were foreign, the greater part being German; for mercantile tonnage the foreign percentage was as high as 60 per cent. Of steel castings about one-quarter of the supplies came from abroad—from Germany and Austria; and a smaller proportion of miscellaneous steel forgings for marine engineering and of plates and sections was also supplied from abroad.”

These are the statements of the Depart-



mental Committee on Commercial and Industrial policy after the war, which reported in 1917.

Our shipbuilders were becoming the mere assemblers of parts made in Germany.

It is not easy to imagine a less secure foundation for an industry upon which the security of the nation depends.

And the Committee goes further: it states that this dependence was the object of German State policy.

“ The Departmental Committee are satisfied that the prices were in many cases actually ‘ dumped ’ prices, and express the opinion that in the case of rough machined forgings and finished crank shafts the dumping was governed by political considerations, the object being to cripple Britain’s forge masters with a view to reducing the potential output of guns and other war material.”

Here, then, is evidence of a design so deep against the security of this country, and so nearly successful, that Englishmen who consider it cannot but shudder as they look down into the pit which was dug for their feet.

We were saved in this matter by the policy of our Admiralty. For our Admiralty insisted that steel forgings for ships of war must be made by British forge masters of British

steel. That stipulation forced our shipbuilders to maintain forges in spite of the market ; but for these forges when war broke out we might not have been able to fit a propeller with a shaft.

The position, then, of our shipbuilding industry was that it looked to Germany not only for its materials but for its parts, and our yards assembled what the Germans manufactured. The Germans were in a position to take over the assembling of their parts, that is to say, our merchant shipbuilding industry, as soon as they had the capital, the yards, and the mechanics to spare. In the meantime it was convenient to Germany to maintain England in this state of false security and real dependence.

*Sea Carriage.*—Shipping or sea carriage is rather a trade than an industry and rests upon shipbuilding and upon production. A nation which cannot both build and load its own ships cannot be secure of its shipping.

Holland fell because she depended upon sea carriage for other nations. England built up her sea carriage on the secure basis of her own woollen manufacture.

Our ships were more expensively built, armed and manned than the Hanseatic and the Dutch ; but they were secure of their

cargoes. When Drake seized the Hanseatic fleets the Germans had no refuge but verbal protests, which sound thin and weak in the ear of posterity. When Cromwell enforced our Navigation Acts and France followed his example, the Dutch were left with nothing to put in their ships. Every bird took his feather and they were stripped naked.

Huskinson neglected this true foundation of shipping when he relaxed our navigation laws, in order, he said, to make us the entrepot of the world.

England forgot more and more that her shipping rested upon her manufactures until before the war our shipowners were ready to assist the manufacturing power of rival nations against their own. In this reckless policy they sometimes combined with our railways. The Germans, on the other hand, followed the older English policy, and made their shipping subsidiary to their manufactures.

The Committee which reported on the Iron and Steel Trades in 1918 found that " British industry has in the past been severely handicapped by the unfavourable shipping rates charged upon material despatched for export from the United Kingdom ports. These rates are in many cases far in excess of those

charged upon similar goods from continental ports. Indeed, there is evidence that difference in freight charges alone determined the success of the foreign and the failure of the British manufactures in overseas competition."

The Committee gives many examples of this policy. Thus the general rates from Hull to Buenos Ayres were 17s. ; but from Hamburg or Antwerp to Buenos Ayres 11s. 2d.

"The Lancashire and Yorkshire Railway, Great Central, and North-Eastern Railways had their steamers running from the East coast to Antwerp, and it was possible for German exporters to obtain a freight of 3s. 6d. from port to port ; but if British manufacturers required to ship from this country to those ports, then they were charged 7s. 6d. per ton."

Again, "The regular lines from the United Kingdom to Mexico had a freight rate of 17s. 6d. from British to Mexican ports, but the German line from Antwerp to Mexico accepted freights at 5s. a ton. The British line, to try to outdo them, sent boats to Antwerp to compete for business, and also accepted the same freight from there, thus aiding the German efforts to introduce German goods into Mexico, whilst they still charged 17s. 6d. from British

ports by boats that had already loaded freight at 5s. a ton in Antwerp."

These examples show that our shipping contrived to maintain itself on a precarious international foundation.

The Germans based their growing shipping on the secure foundation of production ; upon this basis German shipping forced British shipping to become also the servant of German industry and to assist German industry to kill British industry, and especially to kill the British iron and steel industry upon which our shipping was founded.

The result of this policy in war was that although we had many ships we were weak in the materials of shipbuilding, and in the means of producing and shaping those materials.

The advantage in shipping covered a disadvantage in material. We were forced to use our ships and expend our credit in importing from abroad what we should have produced at home, and we stood at the courtesy of strangers for what we should have been able to command from our own people.

We were forced to depend upon the United States for a great part of our steel and upon Spain and even upon Sweden for our iron-ore.

Germany owned or controlled the Swedish

iron-mines, and in order to get a few crumbs from this German table we were fain to relax our blockade and make concessions both to German and Swedish trade.

*Textiles.*—In the textile industries both Germany and England depended in the main upon sea-carriage for their raw materials. The advantage therefore lay or seemed to lie with England. But either the influence of the German economic system in England or the dependence of England upon foreign nations robbed England of this advantage. Germany was allowed to import great stores both of wool and cotton before these commodities were made contraband.

Moreover, the British textile industries had come to depend upon Germany for dyes.

Our ancient policy in this matter was either to naturalise dye-plants, or where that was impossible to grow our own dyes in our own plantations. From the reign of Queen Elizabeth downwards the State assisted our textile industry to secure the naturalisation or control of all known dyes. But in this matter also Cheapness had prevailed over Security. The Germans used their control over potash, their cartel system, and their concentration of capital to establish a monopoly in synthetic dyes.

In 1913 we exported dyed textiles to the value of £80,000,000 and to serve this trade we imported 18,000 tons of dyes valued at £1,890,000, of which at least 90 per cent. came from Germany. We produced but one-tenth of the dyes we used, and according to the Departmental Committee's Report on the Textile Trades, "even that percentage does not convey an accurate idea of our dependence upon Germany, for it has been ascertained that a considerable part, probably a greater part . . . was tolerated by the Germans upon conditions which practically made British dye-manufacturers tributary dependents of the gigantic German industry."

This double dependence upon shipping and upon German dyes made our textile trades—and especially our cotton trade—a cause rather of weakness than of strength in war.\*

As our shipping wasted our cotton industry was straitened both in raw materials and in marketing.

*Metals.*—In the metal industry the Metallgesellschaft bought the ores of Australia, carried

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\* The needles used in the manufacture of machine-knitted cottons were practically all made in Germany before the war, so that in this respect also our textile industry was founded upon the industry of a possible enemy.

those ores in their own steamers to German refineries and sold the metals thus produced in the London market. She thus reaped the profits of the entire process of trade. Although the British Empire produced the ores and used the metals, the profits of refining the one and selling the other went to Germany ; and not only the money profits but those less tangible assets, the "exquisite knowledges" and aptitudes and the national power which were derived from the metal industry, went also to Germany.

Here again we see the dependence of one industry upon the other. Germany's chemical industry and Germany's metal industry worked together to make her supreme in munitions.

Before the war two million tons of spelter were used every year in British industry. Of this spelter only from 50,000 to 60,000 tons were produced in this country from native or imported ores. The balance came chiefly from Germany which controlled and refined the ores of the British Empire.

As a by-product in the manufacture of zinc Germany obtained a cheap supply of sulphuric acid, which is essential to the manufacture of high explosives.

In glass, which is closely allied to the



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chemical industry, England at one time led the world. Up to 1882, for example, British manufacturers had a monopoly of the glass bottle industry. From that time on, German and Austrian glass forged ahead until by 1907 the Germans and Austrians had defeated us in our own markets. And so in other forms of glass ware: we were coming to rely more and more upon the production of rivals and possible enemies.

Thus, in the whole armoury of modern war, as well as in the necessities of existence, we were unprepared. In food, in steel, in forgings, in copper, in zinc, in lead, in nickel, in glass, in chemicals and even, it is said, in some of the actual finished weapons of war we had come to rely upon a nation with which we found ourselves at war, or upon nations within its power. Even ores which we produced within the British Empire we were unable to refine into metals.

This dependence of England and the British Empire upon Germany was not only industrial but was also commercial, financial and political.

In all these spheres the dependence was still only partial when war interrupted the process of exploitation: if it had been complete we could not have made war.

*Leather.*—How far it had gone in some branches of commerce we may gather from one or two further examples. The trade in the raw products of the British Empire had once been a monopoly of British trade. Before the war Germany was exploiting one after another, and Hamburg was becoming a greater entrepot for the tropical produce of the British Empire than Liverpool, Glasgow or London.

In leather, an industry of hardly less importance in war than in peace, England at one time had a monopoly of the Imperial production. If we take the case of India, one of the great sources of hides, we find that in 1872 the shipments to the United Kingdom were seven million hides, to other countries none. In 1913 the Continent, that is to say, Germany and Austria, took 6,982,000 hides and the United Kingdom only 17,500. Germany and Austria, in other words, had taken over almost our whole supply of raw material from one part of the Empire.

The commerce in raw material is likely to follow the industry in which that material is used, and Germany captured the trade in hides by protecting her leather industry.

In 1876-77 the German Government imposed an import duty on leather of 6 per cent. *ad valorem*. In 1878 it was increased

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to 10 per cent. *ad valorem*, and in 1906 it was still further increased to from 1½d. to 2¾d. per lb., according to the weight of the tanned hides. While Germany was thus shutting out British leather a German buying organisation was established in India. In 1913 the firms composing this ring contained thirty German or Austrian directors, partners, or managers, and four naturalised or not German. Of the European assistants there were thirty-five German and Austrian and only twelve naturalised or not German. In addition to this organisation of German hide merchants in Calcutta there were a dealers' association in Hamburg and a tanners' association in Germany.

Sir Henry Ledgard, in his account of the Indian hide trade, says that the dealers in Hamburg worked with the ring in Calcutta, and any outsider attempting to do business found himself against the Calcutta association or its counterpart in Hamburg. A German line of steamers carried the hides direct from India to German or Austrian ports. This German monopoly, according to the same authority, was financed by the British banks. While England administered India, Germany had the profit of this trade, and again it was not merely profit, for Sir Henry Ledgard

calculates that in the 3½ years before the war Germany obtained enough ox, cow, and buffalo hides from India to make close on fifty million army boots.\*

*Rice.*—In Burma our British merchants carried on a long and desperate struggle for the control of the rice trade. By 1906-7 competition had so far reduced prices that the German firm of Kruger & Co. in Rangoon was almost insolvent. This business was taken over by the Reis und Handelsactien-gesellschaft of Bremen and Hamburg, which was supported by the whole strength of the German banks. This great organisation bought and milled the rice in Burma, glazed it in Germany and sold it in England at prices so low that British merchants found it difficult to compete. Thereupon three British and one German-British firm combined to found a rice-mill in the free port of Hamburg, and the conditions given by the port of Hamburg were so far superior to those of Liverpool and London that British merchants found it profitable to mill their rice in Hamburg and re-export it to England. By such means the British merchants maintained their position, but it is none the less true that Germany in 1913 had

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\* See Sir Henry Ledgard's paper in the *Journal of the Royal Society of Arts* for March, 1918.

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secured 40 per cent. of the rice production of Burma, and that Hamburg was polishing a large part of the remainder for the British market.

*Margarine.*—The remarkable case of margarine might furnish us with another example of this exploitation of the British Empire. The copra, palm kernel, and other oil nuts and seeds of our tropical colonies yield edible fats which before the war were used by the poor as a substitute for butter. As the Danish and the Dutch supplied us with most of our butter, so they also supplied us with a great part of our margarine, although this margarine was manufactured out of the raw materials of the British Empire. Germany, in order to secure her share of the industry, put a tariff on foreign margarine, and the Dutch makers were compelled to establish factories in Germany. But as our market remained free they took no steps to establish works in Great Britain. The Danes, however, were jealous of their butter industry, and passed a law forbidding the margarine manufacturers to imitate the colour of butter. This law acted in a curious way as a protective measure for British industry. The English liked to have their margarine coloured, and the largest Danish margarine manufacturer

set up works in England so as to retain his British customers. These works developed in time into a British company, but in 1913 England only produced about half of the margarine which she consumed. In 1913 we were importing 1,460 tons of margarine per week, of which 1,427 tons came from Holland. The payments made to Holland for the margarine we might have manufactured ourselves were a part only of the loss. In the manufacture of margarine, as in the cleaning and polishing of rice and manufacture of beet sugar, the by-products make a valuable food for cattle. This cattle food also was a loss to the British Empire and a gain to the rival economic system of Germany. Vegetable fats were in fact the raw materials of animal fats. These cheap feeding stuffs gave the Dutch and Danish farmers an advantage over the British farmer in butter and cheese. It is remarkable that when the war began Holland sent to Germany the greater part of the butter and cheese which she had formerly sent to England, but her export of margarine to England increased. We have seen that she sent to England 8,000 tons of butter in 1913, and only 2,200 tons in 1916, but whereas she sent to England 6,200 tons of margarine in 1913 she sent 8,500 tons in 1916. Now here

we have an illustration of the bearing of an industry on national security. England had neglected the manufacture of margarine in peace and was therefore unable to provide herself with margarine in war. She was forced, therefore, to send increasing supplies of raw material to Holland, which Holland used partly to turn into margarine for the service of England and partly to turn into butter and cheese for the service of Germany.

We lost in security what we gained in cheapness. It would have been a better economic policy to have established our own margarine industry before the war and to have used the by-products of the industry for the feeding of our own cattle so as to produce our own butter and our own cheese. We should then have been independent of Dutch supplies and could have prevented Holland from feeding Germany by denying to her the raw materials necessary to her agriculture. As it was, we were forced to assist Holland to provision our enemy, and were fain to content ourselves with the Dutch margarine while Germany had the Dutch butter.

*Sugar.*—If the strength of an empire depends upon its economic self-sufficiency, the history of our sugar industry is the history

of a declining power. At the beginning of the nineteenth century we supplied ourselves and Germany with our own sugar, grown in our own plantations and refined in our own refineries; in the year before the war we imported 1,800,000 tons, of which Germany and Austria sent us about 1,000,000 tons, mainly refined. We had long ceased to be independent in the refining of sugar; by 1896 we refined only 40 per cent. out of our total consumption.

The cheap refined sugar which we had from Germany we used in a whole series of secondary industries which all rested upon the supply of German sugar.

It might interest the political philosopher to observe that these industries were centres of pro-German policy in this country.

Commercial dependence carries with it political dependence.

In sugar so nearly complete had the dependence become that our Government was reduced to a state of panic. It appointed a Commission on which the members who could be called experts in sugar were manufacturers who had depended on German beet-sugar before the war, and a wholesale provision merchant who had bought it. This Commission appointed as their buyer a person



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of German origin, whose firm had imported chiefly German sugar.

There was no immediate occasion for alarm, as there were from three to four months' supply in the country, and the world's sugar crop was large. The position, had England only realised it, was saved by the United States, which had protected the cane sugar of Cuba. When Germany was giving a bounty on the export of beet sugar the United States imposed a countervailing duty which had the effect of increasing the Cuban crop from 850,000 to 3,500,000 tons in the space of fifteen years.

The Sugar Commission, however, was wholly ignorant of cane sugar. It rushed into the market and bought in a few days supplies for six or eight months, much of which was unsuitable for human consumption. One of the immediate results of this panic policy was that a Bremen firm which had been buying Havana sugar largely before the war, evidently in anticipation, retired to their native land with £2,000,000 sterling of English money. The Commission bought so badly that it was faced with enormous losses unless it kept up the market and it therefore closed the English ports to the importation of sugar. The British public were kept short of sugar

by the Commission appointed to buy for it.

Thus waste and ignorance in war paid for cheapness and profusion in peace. It never profits a nation to secure supplies at the expense of its own industries and its own knowledge.

A government with a national policy might have used the occasion to resurrect a national industry ; but when the Commission discovered the cane sugar of Cuba it was content to shift the centre of our sugar supply from Hamburg to Havana.

If the policy of the Commission had been to preserve the goodwill of the German sugar trade, it could hardly have acted otherwise. And it is not surprising to learn that as late as 1915 the German interests in Mincing Lane made an organised attempt to secure the post-war trade by a form of contract in which the price ruling at Hamburg was to be the basis.

Fortunately the British instinct of the City of London revolted against the conspiracy, and the project was defeated.\* That

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\* This revolt led to the formation in 1915 of the British Empire Producers' Organisation, an attempt to organise the industries of the Empire for their own security.

it should have been attempted shows the state to which our dependence upon Germany had brought what was at one time among the most stalwart of our industries.

A nation which depends rather upon international trade than on national industry never cares to carry war to extremities.

*Finance.*—Our dependence upon Germany in finance had results equally unfortunate. Calculations vary; but the lowest estimate of our outstandings in Germany and Austria at the outbreak of war is £100,000,000 sterling, and I have heard the sum put very much higher. This dependence reduced our finance to such a condition that the Government was forced to intervene and pledge the resources of the nation to meet the liabilities incurred by the banks.

Those banks which should have been a source of strength to the State became a source of weakness.

Our dependence on Germany was political as well as financial, commercial, and industrial. So far did this dependence go that, contrary to English law and all the usages of war, we allowed German financial and commercial organisations to continue their activities both in the outer parts of the Empire and in its capital; in every operation of war this

dependence exercised its subtle and demoralising influence.

*The Loss of Security.*—Here, then, is a calculus which has been neglected by our political economists who make their reckoning in terms of wealth. They argue that if one nation can produce an article more cheaply than another, it is to the advantage of that nation to depend on the other in that respect.

But when that article is a weapon or necessity of war, our inability to produce it may be fatal, and our attempts to produce it in war may be far more costly than the difference between the price at which we might have produced it if we had protected the industry and the price at which we bought it from the other nation. A small saving in peace is lost in the vast waste, haste, and extravagance of war. Here is a sum which lies outside the mathematical computations of our classical School of Economics. It may be reckoned in the lives of our young men ; in the loss of our national wealth and credit, and in the sufferings of those nations which rested upon our protection. It may be reckoned even in the loss of political independence and of national freedom, or in the total destruction of the State and the enslavement of its subjects.

It is impossible to set down in figures this tragical calculation, but we may at least say that war discovers a new element—a new dimension in economics, the dimension of security.

## CONCLUSION

We are now arrived at a point when we may bring our principles to a summary and our history to a conclusion.

The conclusion of our history and the summary of our principles may be put in a sentence :

The chief interest of the nation is the security of its industries. That is the rock foundation on which our national policy must rest if the nation itself is to be secure.

To some it may now seem a trite and commonplace moral, yet before the war it was either denied or neglected both by our economists and our statesmen.

Before the war our economists neglected this foundation of national security almost altogether, and our statesmen when they did not neglect it considered it upon narrow and inadequate lines. They assured the nation that security rested upon armaments—upon the Navy and the Army. Some said that we were secure if we built enough

Dreadnoughts : others proposed National Service as a kind of reinsurance. We have now both, and we see that Army and Navy are but the surface of the question. They do not go down to the rock. For if there is one thing certain it is that although we have a great Army and a great Navy we are not secure as a nation, either in the present or in the future.

We see now that the safety both of the Army and the Navy rests upon the national industries, yet before the war no party in the State ever told the nation that its industries were necessary to its security. One party—the governing party—put cheapness before industry and was satisfied if an article could be obtained at the lowest possible cost, no matter whence it came. We see now that this cheapness was a danger and a snare. We had cheap bacon, butter and cheese ; but they came from Denmark, Sweden and Holland, which turned their backs upon us and supplied Germany. We need not blame them. We should rather blame our folly to depend upon countries which lived under the shadow and power of a possible enemy. We had cheap sugar, and that sugar came from the enemy itself. We had cheap steel, most of which came from Germany. We built cheap

ships to carry cheaply those provisions and that steel ; but the ships were chiefly built from plates and forgings made in Germany. We had cheap cloth and cotton, which we made ourselves, but the dyes essential to their manufacture we had from our possible enemy. Glass, metals, magnetos, and many of those chemicals essential to our security we were content to take from Germany because they were cheap and our Government assured us that we were wise in so doing.

Another party in the State urged the Government to adopt a protective tariff, and this party certainly came nearer to our conception of a national policy. Yet this party also argued less for security than for wealth and cheapness, which it maintained, upon uncertain and debatable ground, might be better reached through Protection. It also placed wealth and national well-being as the end before the nation, and neglected to instruct the nation in the true foundations of national security.

A third party argued that the wealth of the nation was unfairly distributed. If only, it argued, the State controlled the means of making wealth and doled it out in equal parts, or if only the manual workers took all the proceeds of their labour and shared it between



them, we should have the ideal policy. Here again the end was wealth or abundance or material happiness or comfort. Such was the universal appeal—the ends which all set before the nation. And none or few paused to consider that, cheapness, wealth and happiness were snares and temptations, and might lead either to destruction or to slavery if they were not based upon the security of the nation.

While our statesmen neglected this main end of national security, certain great interests—branches of our commerce and industry—worked to undermine it. We had whole industries content to depend upon raw materials and partly manufactured articles produced by foreign nations over which they had no control ; we had merchants willing to import foreign wares to undersell our own ; we had railways and shipping lines which carried the goods of all nations indifferently, and even entered into arrangements to give preference to the wares of foreign nations over our own ; we had bankers who collected our savings in order to lend them to the support and increase of a rival commerce and industry. All these and other British interests which worked against the national security, worked against themselves. For in the last resort the existence of our banking, our commerce and our

shipping depends upon the security of the nation of which they are a part. When a banker supports the industry of a rival nation to the neglect of his own he diminishes that security on which his whole business rests. In neglecting this consideration our bankers failed not only as Englishmen but as bankers.

Was this betrayal of our national security the work of the interests or of the statesmen? That is a question difficult to answer. The truth would seem to be that the most influential of our statesmen in the second quarter of the nineteenth century felt themselves strong enough to neglect national security and to devote themselves to national profit. Our national and especially our naval power had destroyed all our rivals and opened to our wares the markets of the whole world. The only national obligation left to consider was how to pay most quickly and most easily the debt incurred in that operation. As we were supreme in industry and commerce a free trade in all markets was to our obvious and immediate gain, and this was won by the surrender of our security in agriculture and shipping. For a time the policy was immensely profitable. The gains could be seen and felt: the dangers could only be discerned

through a telescope. When these dangers grew nearer the fatal policy was adopted of conceding and surrendering position after position, industry after industry, to rest less and less upon our national and industrial strength and independence and more and more upon our commerce, our banking, and a foreign policy of concessions tempered by alliances. Our Navy remained, the only survival of our ancestral policy, the great and shining exception to our general abandonment of security for gain.

The fault was not of our statesmen alone but of the interests on which those statesmen depended. But as time went on the growth of the German economic system introduced a new factor into our affairs. German industry and commerce sent their roots and suckers deeper and deeper into our national soil, until it became difficult to distinguish the native from the alien and hostile growth. This invading power had its influence upon our policy. How far it went we can only calculate from the visible effects. If the secret accounts of our political parties were published we should probably be in a better position to trace the means by which this influence was exercised.

These are questions of detail and of history.

The result at least is certain. Before the war our national policy rested not on the rock of industrial security but on the shifting sands of international finance and commerce. We were ceasing to be an independent economic power and were becoming a mere annexe of the German system. It is true that we had great apparent wealth ; but it was at the cost of our national security and of our national independence.

Of this security, it cannot be too often repeated, industries are the root or the rock. It is not merely because they give us wealth that we should cherish them : we might possibly make a greater profit by jobbing on the Stock Exchanges of the world, by banking, and by trading with the goods of other nations. But these profits would not give us security : there lies the chief value of our industries. If we produce our own food, make our own ships and weapons out of our own steel, weave our own cloth out of our own wool, produce and make for ourselves all essentials of peace and war, then and then only can we feel reasonably secure—and not only ourselves but our children who come after us. But when we say “ our own ” what do we mean by the term ? The foresight of our ancestors provided that “ our own ” should include all

climates and all commodities. " Our own " means not only England or the United Kingdom, but the British Empire. We have there the means of security : the security of one is the security of all.

We found our policy upon production. And industry is more to a nation than treasures of gold and silver. For by its industries a nation is secure : without industries it is at the mercy of those other nations which possess industries.

Every industry is a piece of armour covering some part of the national body. If we throw away an industry in the pursuit of wealth or cheapness, we throw away a piece of our armour. If, for example, we abandon our steel industry because we can get cheaper steel abroad, we are powerless to resist the nation which produces that steel when it chooses to quarrel with us or to claim some of our possessions. So it is in a minor or major degree with every other industry. To the extent that we depend upon another nation for a necessity of life, to that extent we put ourselves at the mercy of that other nation. Even if we were rich in several industries, like shipping or cotton, we might be enslaved, stripped bare and destroyed by the lack of other industries vital to our existence.

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Our industries, then, are the rock foundation of our policy, not only for the wealth but for the security they give us. But if we take the lower point of view and consider only wealth, that wealth can only be secured by production. For a nation which gains profit by dealing in the wares of other nations is like a bird in borrowed plumage. Let every fowl take his feather and it is stripped naked. If the producing countries determine to market their wares, or if war comes to interrupt the course of trade, the nation of middlemen is helpless. All the hoarded money of international trade will run off that country as water runs off the roof of a house. So it happened with Holland, which neglected its industries for international commerce, and lived by marketing the woollens of England, the silks, linens and cambrics of France, and the spices and cottons of the East. There came a time when France and England, which had founded their strength on production, extended their energies to the trade which rested on that production, and Holland fell.

So with Spain, which neglected its industries for the gold of the Indies. Although it became for a time the "fountain of treasure," the money flowed away faster than it came,

to buy arms, clothing and ships, until in the end Spain became the bloody arena on which was fought the battle between France and England for the succession of its wealth.

As man lives by the sweat of his brow, so a nation lives by its industries. It must work or fall. Nature offers no security for nations which live by the industries of others.

It was clear that we had forgotten this governing principle of national policy when war overtook us, for we were willing to barter away any of our industries for an immediate gain in money. In the days before the war a farthing a pound might mean the difference between the life and death of one of our industries. What did a farthing a pound matter during war, when an industry was seen to involve the very existence of the nation ?

That policy or lack of policy brought us to the edge of the abyss. So far we have escaped destruction only at a ruinous cost and by the assistance of Allies. But unless we change our policy and found our security upon our industries not all the Allies in the world, nor any League of Nations, nor even the most complete naval and military victory, can save us from ultimate destruction.

Let us get back, then, to the first principles

of a national policy. What are these principles ?

National security rests on economic security.

Economic security means the production of all essentials of life in peace and war.

This production depends upon the national industries.

Therefore :

The welfare of its industries are the chief interest of the nation.

Our policy therefore is founded on industry and supports all other interests in so far as they support industry.

Commerce is beneficial to a nation when it supports the industries of that nation.

Commerce is injurious to a nation when it injures those industries.

The importation of raw materials is beneficial.

The exportation of manufactured goods is beneficial.

The importation of manufactured goods is injurious if they can be produced by our industries.

The exportation of raw materials is injurious if they can be used in our industries.

So we may say of shipping : it is like commerce—of benefit when it supports our



industries, injurious when it supports industries which injure our own.

And so, also, of banking. The banker serves the national interest when he supports the national industries ; when he exports his capital in the service of rival industries he diminishes the national security.

An interest may profit from the injury of the nation to which it belongs, as a parasite may thrive upon the host in which it lives and which it destroys. Such interests were those connected with the finance, carriage, and importation of German manufactures. They lived by a free entrance into the country whose industries they were injuring. They had, therefore, the most powerful of all motives to maintain the policy of Free Trade.

The policy of Free Trade was begun as a means of opening German markets to British goods when the British economic system was stronger than the German ; it was continued as a means of opening the British market to German goods when the German economic system became stronger than the British.

It is one of the fictions of democracy that a Government represents numbers : in fact, it represents interests. A political party represents the interests of those who supply

it with the means to live. The Liberal Party, before the war, was largely maintained by the interests which thrived on the injury of British industries. The opinions of what is called the Free Trade party are not likely to change, for only exceptional men change opinions on which their livelihood depends.

The Free Trade party has grown weaker in the war not because its opinions have changed but because its means have diminished.

If the Germans were again to become strong in British commerce the Free Trade party would again become strong in British politics. A political party is the expression of an economic force.

If the Americans take the place of the Germans in our markets, these arguments apply to them also.

A nation is likely to be secure and fortunate when its government represents its interests. It is likely to be insecure and unfortunate when its government represents a rival economic system, or interests which depend upon that system.

Organisation means power no less in a popular than in any other form of government, and we may suppose that the power of the German and pro-German interest in

British politics was derived from the organisation of German industry, commerce, and finance.

The Germans had maintained the industrial and commercial organisations which the British had abandoned. Those organisations they used to influence national policy, both at home and abroad, as we had used them when the British economic system was making its place in the world.

If we are now to regain a national policy founded in the security of our industries they must again organise and work for national ends. Their object should be to secure a Parliament and a Government faithful to their interests. The Government of the country should again become—what it has long ceased to be—the expression of the sum of its economy.

To that end, not only should every industry organise, but all should combine in a central organisation which might enable them to support their common interest with a common effort.

Hitherto the enemies of our industries have worked to divide every industry against itself and one industry against another.

They have made the conflicting interests of master and man as to wages and hours seem

more important than the common interest of existence which should unite the industry as a whole.

For the whole is greater than the part. If the industry itself is injured, masters and workmen both suffer.

If the industry is destroyed, masters and workmen are both left without employment.

Whereas, if the industry is secure, the minor differences of wages and hours may be adjusted.

And so with the industries themselves: one industry may have interests which conflict with another: wool may have interests which conflict with cotton, cotton with agriculture, and so forth; but the interest which unites them is the major interest, for it is nothing less than the interest of a common existence.

If the industries of a country are divided one against another, or if the national commerce works against the national industry, the result must be weakness and danger.

An interest may thrive upon the injury of a nation of which it is, or seems to be, a part, as a parasite thrives upon the host in which it lives; and it may even come about that these injurious interests may influence State policy out of its true bias in the safety of

the nation. History yields examples not a few of governments which have secretly put themselves at the service of alien interests.

There is a suspicion widely entertained among our people that certain branches of shipping and finance connected with the German economic system influenced our national policy to the injury of our interests and, therefore, of our security. These suspicions may be grounded in nothing better than coincidence. Two German financiers come to England. They throw themselves with a generous enthusiasm into our public life : one becomes the Maecenas of the Liberal, the other of the Unionist party, and honours are showered upon both. Their interest in our affairs may be due to their native altruism, but as they retain at least some of their German connections, it is a little difficult to understand why their charity did not begin, and end, at home. The cynicism derived from experience of politics suggests other explanations, and it is at least certain that our secret party fund system offers the easiest and safest means for corruption.

It would be dangerous to be dogmatic on this subject ; but we may say that the gain to Germany of an open market in England

might tempt a more scrupulous Power to tamper with our institutions.

If the Germans have succeeded in this, as in other matters, they have succeeded by organising upon national lines and by following a national policy.

It is safe also to predict that if America takes the place of Germany in our commerce, Americans will take the place of Germans in our politics.

Our organised trades split up into individuals when Waterloo left us without enemies, or even rivals, in sight. That individualism was not, as some now think, part of the British character. On the contrary, the English had always traded in companies—a system which Bacon took to be native to our genius. Our great trading companies, joint stock and regulated, and our industrial and commercial guilds, out of which they developed, had time out of mind conducted the trade and moulded the national policy of England.

The policy of Elizabeth, of Cromwell, and of Chatham sprang from the closest touch between those great statesmen and the corporations which then conducted our export trade.

But as those corporations broke up into

individuals with victory over our rivals, our economic system was left without a national policy or any organised defence to meet the rise of the German economic power.

The Germans, on their side, encouraged and enforced a national economic organisation, which there is reason to suppose they had adapted from our practice of the eighteenth century, as in the fifteenth century our Merchant Adventurers had improved upon the methods of the Hanseatic League.

It is interesting, however, to note that as the national dangers became manifest our merchants and our manufacturers began to turn back to their ancient and disused methods of organisation upon national lines for national purposes.

A great meeting of the Association of Chambers of Commerce adopted the Norwich Resolutions, which laid it down as a principle that our national policy must be based upon its true foundation in the production of our own soil and industries. These resolutions formed the basis of the more famous Paris Resolutions which were adopted by the Allied Governments, our own among them, and formed for the British Government a definite departure, at least in principle, from the doctrines of Free Trade. These resolutions

have, however, been vetoed by President Wilson.

Our Chambers of Commerce are a cumbrous and unwieldy organisation, instituted upon no definite economic principles. They admit to membership the foreigner and the agent of foreign manufacturers, and are thus ill-constituted to fight the battle for a national policy founded on production.

In 1915 the National Union of Manufacturers was founded with the general idea of securing a national policy more favourable to the manufacturing interest. About the same time the Federation of British Industries was formed by a group of about a hundred of the great manufacturers, chiefly those concerned in the making of munitions. Of their general views on national policy there is no doubt : as manufacturers they desire the State to support the national industries by all means in its power ; but their situation produced in them a certain timidity, and they have been chiefly concerned with the immediate dangers of official interference and control. They set themselves, with a touching timidity and deference, to moderate the more calamitous eccentricities of the Ministry of Munitions ; so far they have had neither leisure nor freedom to raise their eyes to the wider issues of



national policy. When the Federation has the courage of its opinions it will become the greatest force for good in our industrial system and our political life, for the interests of its members coincide with the security of the nation.

A similar conception took shape in the British Empire Producers' Organisation, which began in 1915 as a protest against the attempt by the German interest in Mincing Lane to bind the British market to German beet sugar after the war.

Associations of producers of sugar in all parts of the Empire met in London in the early spring of 1916, and bound themselves together in the defence of their industry. As one industry alone could not hope to influence national policy, co-operation with other industries naturally suggested itself, and now the British Empire Producers' Organisation is a federation of many industries in England and in the Dominions, all bound together by the general interest.

The first object of their policy bears so closely on the subject of this book that I must venture to quote it: "To make the Empire self-supporting in all essential industries."

Here we get to the heart of the matter,

and to this end: "the Organisation advocates the federation of producing and manufacturing associations throughout the Empire in this Organisation."

Thus we see in various directions the symptoms of a national movement that is both old and new, a movement of the industries of the British Empire to direct the Imperial policy.

Such a direction, if it might be obtained, offers the best guarantee of a government faithful to the national interest. For the chief interest of the nation is its industries.

The security of our industries implies the security of all concerned in those industries and the security of the nation.

But if that end is to be reached our industries must be organised upon national lines, and Parliament must no longer consist of the servants of the political parties, but the representatives of our industries.

Such an end can only be achieved if our industries organise themselves, masters and men together, as industries, and combine upon a common platform of industrial security.

The first necessity of such a concordat is that the masters and men should recognise their common interest in the security of their industry. This common interest, although

generally ignored, is when it is challenged, seen to be of far greater moment than the differences which divide them. Differences concern a division of the means of life ; the common interest is the means of life itself.

The second necessity is an understanding between agriculture and the other great industries of the nation.

The concordat would include shipping when it is faithful to the interest of the nation, for a large mercantile marine is and always will be essential to the existence of the Empire.

It would encourage commerce when it is faithful to the interest of the nation. The elimination of the merchant is neither possible nor desirable. The merchant as " the steward of the nation's stock " has a great function in the State. It is only when he becomes the steward of a rival nation's stock that he is dangerous to the commonweal.

It would include banking when it is faithful to our policy of economic security. All bankers who realise that national security is the foundation of banking, and that national security depends upon production must support such a policy.

A party founded upon these lines could offer to the working manhood of the State security of employment.

As man lives by work, security of employment is what honest people most value.

They value also opportunity for their children, and that opportunity is given by the security of the national industry.

Education has become too often the enemy of industry ; it must again become its ally.

The true ideal of a national education is the better service of the industries by which the nation lives.

Better service means greater reward, and our children should have the opportunity of offering this better service and obtaining this greater reward.

A national party founded upon industry would have a national inspiration, a national ideal. They would insist that the fruits of British industry went to the British people ; they would oppose the free importation of foreign subjects as much as the free importation of foreign wares ; they would recognise British nationality as a birthright which was no longer to be sold for a licensing fee, and they would admit aliens only to teach us those arts and crafts of which our people were ignorant.

Such a party built upon such foundations and maintaining such principles might renew the strength and establish the security of the

British Empire. It might cleanse the polluted fountain of power and honour ; it might make an end of political caucus, secret party funds and the other engines for the corruption of our national policy. It might drive the money-changers out of the temple and make the new England like the old, strong in its national spirit and faithful to its national cause.

Here, then, is our national policy. It rests on the principle that the security of the State rests upon the security of its industries, and it proposes therefore that the State should be the protector of the industries, and their expression in terms of national policy. The means of security will be a matter for the industries themselves to settle. They will not be so foolish as to build a Chinese wall round the British Empire. They will propose to trade with the whole world, but upon this basis, that we are masters in our own house.

Here surely is a policy to rally and inspire the manhood of this great ancient and valiant nation. What is opposed to it? There is opposed to it the International ideal, the policy of the League of Nations. That policy is to abandon our sovereignty or the main parts of our sovereignty and to trust our

security to the unknown and shifting politics of an international Council. It is, in fact to place our interests, our affairs, our life itself under the control of other nations. Such in plain English is the ideal of policy now being plausibly offered to a nation of free men, which once claimed and achieved the mastery of the world. If they are to survive they will reject that degrading proposal, and turn to the old and true national ideals of independence and security.

THE END

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